

Borough of Chambersburg Pennsylvania



Comprehensive Annual Financial Report

*For the Year Ended
December 31, 2011*

Prepared By the Department of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Borough of Chambersburg
Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Dandson

President

Jeffrey R. Emer

Executive Director

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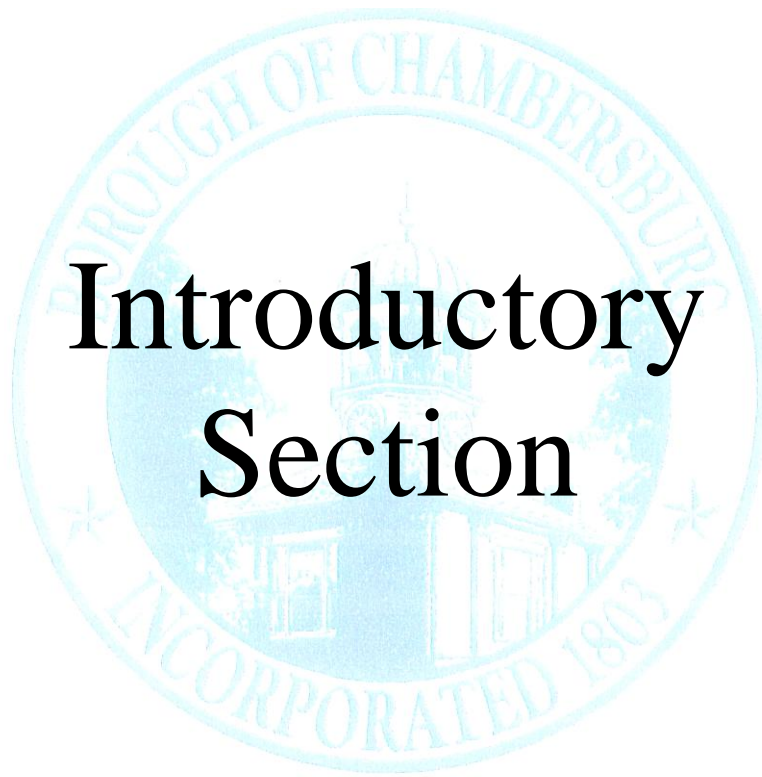
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Introductory Section



Borough of Chambersburg

*Celebrating 50 years of consumer owned gas service
and over 100 years of consumer owned electric service*

Letter of Transmittal for 2011 Comprehensive Annual Financial Report

June 25, 2012

To the Honorable Mayor, Town Council and the Citizens of the Borough of Chambersburg, Pennsylvania.

The Comprehensive Annual Financial Report of the Borough of Chambersburg for the year ended December 31, 2011, is hereby submitted for your review. This report represents the commitment of the Borough of Chambersburg to adhere to nationally recognized standards of excellence in financial reporting.

Borough of Chambersburg staff prepared all statements, schedules, and other presentations in this report. Management is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. We believe that the data presented in this report is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the Borough. Further, we believe that all disclosures necessary to enable the reader to gain an understanding of the Borough of Chambersburg's activities have been included.

The Comprehensive Annual Financial Report (CAFR) incorporates financial reporting standards established by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Statement No. 34 was developed to make annual financial reports of governments more comprehensive and easier to understand and use. All required elements of Statement No. 34, including retroactive restatement of general infrastructure assets are now required in this report and are included in this report as they were in the previous years' reports.

Please review the Management's Discussion and Analysis (MD&A) which is also located in the Financial Section of the CAFR.

The MD&A is management's analysis of the municipality's financial position based on currently known facts as of the date of the auditor's report. It is required to precede the financial statements and provide the following analysis:

- Management's analysis of the organization's financial position and results of operations
- Comparison of current year assets, liabilities, revenues and expenses to the prior year
- Explanation of significant changes in fund based financial results and budgetary information
- Description of capital asset and long term debt activity during the year
- Description of currently known facts, decisions or circumstances expected to have a significant effect on the future overall financial activities of the municipality

THE BOROUGH OF CHAMBERSBURG

General Information

The Borough of Chambersburg, one of the earliest permanent settlements west of the Susquehanna River, was founded in 1764 by Benjamin Chambers on land granted to him by the Penn Proprietors. Chambersburg was incorporated as a Borough by an Act of the State Legislators on March 21, 1803. It is located on Interstate 81 in the south-central region of Pennsylvania and is the county seat of Franklin County. The Borough covers an area of 6.58 square miles and lies approximately 50 miles southwest of Harrisburg, 25 miles west of Gettysburg, and 22 miles north of Hagerstown, Maryland. It is the historic and commercial center of the region characterized by varied small and medium industrial enterprises, a rich agricultural area, and residential growth.

According to the U.S. Bureau of the Census, the Borough's population increased from 17,862 to 20,268 between 2000 and 2010, an increase of 13.5 percent during the period.

Municipal Services and Facilities

The Borough is a total service community providing a broad range of services for the citizens of Chambersburg, including the following general government functions: police and fire protection, emergency medical services, street construction and maintenance, storm water management, parks and recreation facilities and code enforcement.

The Borough is unique in Pennsylvania in that it owns and operates electric, gas, water, sewer, sanitation and parking facilities. The Borough is the largest and only electricity producing consumer-owned municipal electric system in the Commonwealth of Pennsylvania. The Chambersburg Electric Department is in its eleventh year of its second century of service to the citizens of Chambersburg, and the Borough's Gas Department has been providing municipal gas for over 50 years. The citizens of Chambersburg voted on August 20, 1875 in favor of a bond issue to construct a water system. The sewer service was initiated on August 1, 1912.

Governmental Organization

The Act of Incorporation in 1803 provided for "the Burgess and Town Council of the Borough of Chambersburg as the one body politic and corporate in law". The title Burgess was changed to Mayor in 1961. The Mayor is elected at large every four years. His duties are outlined in the Borough Code and include the oversight of the Police Department. The Mayor votes on actions being considered by Town Council only to break tie votes.

The legislative and executive authority of the Borough is vested in a ten-member Council. Two councilmen are elected from each of the five wards, one councilman from each ward being elected at each biennial election. Council members are elected to overlapping four-year terms. The council enacts legislation to provide for Borough services, adopts budgets, levies taxes, borrows money, licenses and regulates businesses and trades and performs such other duties consistent with the Borough Code. The presiding officer of the Council is the President of Council who is a member of Council and elected to that position by a vote of Council members.

By an ordinance approved in December of 1975, Town Council created the office of the Borough Manager. The Borough Manager is the chief administrative officer of the Borough and is responsible to the Town Council as a whole for the proper and efficient administration of the affairs of the Borough. The manager is appointed for an indefinite term and serves at the pleasure of Council.

The Director of Finance, who is appointed by the Borough Manager, is the chief financial officer of the Borough. The Director of Finance exercises the powers otherwise granted to the Borough Treasurer position under the laws of the Commonwealth of Pennsylvania. As such, the Director of Finance is charged with the responsibility of receiving, disbursing, and maintaining custody of all funds of the Borough and serves as Pension Funds Chief Administrative Officer. The position also includes the duties of serving as department head of the Administrative Services Fund, an internal service fund which is

responsible for computer services, cashiering, accounting and the Parking Department as well as the custodial services and maintenance of City Hall. The Director of Finance advises the Borough Manager and Town Council concerning financial matters and assists the Borough Manager in the preparation of the annual budget.

Departmental Highlight – Chambersburg Sewer Department

Each year we spotlight one of the Borough's many departments by reviewing the history, activities and accomplishments of the selected department. Last year's report focused on the Water Department. This year's report highlights our Sewer Department.

The original sanitary sewer system of the Borough of Chambersburg was installed in 1910 –1911 in response to a requirement of the Pennsylvania State Health Department. The Borough was required to provide a "proper" disposal plant with a capacity sufficient to serve the Borough for twenty years. This became necessary when the Borough requested the right to obtain the water from Birch Run, east of the Borough in the State Forest of Caledonia.

The bond issue which provided the funds for construction of the water supply line from Caledonia to Chambersburg, also provided the funds (\$65,000) for construction of the original waste water treatment plant (WWTP) located in the southwestern area of the Borough. The Treasurer's Office is proud to possess bond #25 in the amount of \$500, an "Improvement Bond of 1910" Series A, which carried a 4½% interest rate. The bond matured in 1915. The current Borough logo is adapted from a depiction of city hall found on that bond. The new sewer system was placed into service on August 1, 1912 with portions of the original system still in service today.

From the time of initial construction, continuous improvements have been made to the system. The following is a list of the major facility milestones:

- 1938 upgrade: completed in October 1939 at a cost of \$218K. Funded through a grant, the plant capacity was rated at 2 million gallons per day (mgd).
- 1948 addition: a laboratory was established with the plant processes now being monitored for efficient operation ever since. The current laboratory is accredited by DEP.
- 1957 upgrade: completed in 1959 at a cost of \$990K.
- 1978 upgrade: the J Hase Mowrey Regional Wastewater Treatment Facility was dedicated on November 16, 1980. This upgrade increased the capacity to 5.2mgd at a cost of \$9.045M. A grant of 75% of the cost was instrumental in facilitating this upgrade.
- 1997 upgrade: completed in July 1999 at a cost of \$18.5M, plant capacity was rated 6.8mgd with a maximum capacity of 17.0mgd.

The plant has evolved into a regional facility providing sewage treatment for our municipal partners in Greene, Guilford, and Hamilton Townships. Hamilton Township initially provided connections in 1972. The remaining townships connected to the system in 1980 through an expansion of the conveyance system.

Current Upgrade (2012-2014)

The existing facilities are not able to meet the pending nutrient discharge limits required by the Commonwealth of PA's 2008 Chesapeake Bay Tributary Strategy; therefore, upgrades are required to meet the nitrogen and phosphorus caps. In addition to these caps on nitrogen and phosphorus discharges, the Borough is also facing the demand for additional capacity. This additional capacity is estimated at 60% to meet project twenty-year "build out" in the service region as required by DEP's Act 537 plan study. The facility's daily capacity will grow from 6.8 mgd to 11.28 mgd with the ability to convey

a total influent peak flow of 33.5 mgd based upon an analysis of the Borough's collection and conveyance system.

The extensive scope includes upgrade to all facets of the treatment process with an emphasis on cost effectiveness, energy efficiency and environmental sensitivity.

Overall, the WWTP upgrades are estimated to cost \$35M and will be constructed between 2012 and 2014. This will be the largest public works project in the Borough's history. Initially, prior to design, projected costs were estimated to be \$50M with a reduced scope of construction. Costs will be shared with the municipal partners as defined in the Intermunicipal Agreement executed on September 13, 2010.

Chambersburg's J. Hase Mowrey Regional Wastewater Treatment Plant has been a symbol of intermunicipal cooperation for 40 years. The current upgrades will allow the facility to support the Chambersburg area for decades to come.

Economic Environment - Historical

Chambersburg's history as a strong commercial center is rooted in its strategic location. It was a crossroads of commerce almost from its founding. Situated in the center of the Cumberland Valley, it became the county seat of the newly created Franklin County in 1784. Scotch-Irish and German settlers predominated the early migration into the county. The Scotch-Irish began as farmers from the sheer necessity of survival, but many drifted into political and military occupations. The methodical and industrious Germans quickly and successfully assumed the development of agriculture in the community.

By congressional resolution in 1788, Chambersburg was placed on the post route between Philadelphia and Pittsburgh. The country's post Revolutionary War expansion to the new western frontiers was beneficial to Chambersburg. At first, pack trains, and then the stagecoach and Conestoga wagons were common vehicles of traffic through the town. The demands for the movement of goods manufactured in the East to the West and the products from the frontier were beneficial to Chambersburg. It was reported of every tenth house being used as a hostelry, with the yards being filled nightly to overflowing with wagons.

As wagon traffic increased in volume, the demand for better roads arose. Many of the state's earliest roads were undertaken by the private sector. Acceding to public demands, the State Legislature made large appropriations available for highway construction between 1814 and 1821. \$275,000 was available for improvements of sections of the Carlisle to Chambersburg and the Chambersburg to Bedford sections of the turnpikes. In 1877, thirty-nine of the eighty-eight miles of turnpike in Franklin County were on roads converging on Chambersburg. By 1944, there were 228 miles of main highways and 338 miles of improved secondary roads in Franklin County.

In 1837, the Cumberland Valley Railroad was extended from Harrisburg to Chambersburg where it joined the turnpike to Pittsburgh. The railroad extended down the Cumberland Valley and crossed the Potomac River in 1870 and eventually was extended to Winchester, Virginia in 1889.

The Pennsylvania Turnpike was completed through the County in 1940. The county had two interchanges located within the general area of Chambersburg. The development of the largest U. S. Army Ordnance distribution facility of its kind in 1942 illustrated the possibilities of the area developing as a center of distribution. Chambersburg's location in relation to seaports, metropolitan markets and industrial areas was evident from the beginning.

Economic Environment - Today

The construction of the interstate highway system in the 1960's resulted in Interstate 81 being on the eastern edge of the Borough. Chambersburg has become a magnet for distribution warehouses to facilitate the flow of goods on the East Coast. Authorities are examining their options on how Interstate 81 can be improved to handle the abundant truck traffic that transverses the highway daily. This access to major highways and railroads coupled with Chambersburg's location has created opportunities for our continued prosperity. Other factors that make the Borough a good place to do business are competitively

low utility rates, good municipal services, ample power supplies, affordable housing, a skilled and diversified workforce, a low crime rate and a progressive school district.

The 10 largest employers operating in the Borough in 2011 were:

EMPLOYER	PRIMARY BUSINESS	<u>AVERAGE NUMBER OF EMPLOYEES</u>
Summit Health	Health Care	2,904
Chambersburg Area School District	Public Education	1,031
County of Franklin	Government	900
Menno Haven, Inc.	Retirement Community	562
Ventura Foods	Food Packaging	400
T B Woods, Inc.	Power Transmission Equipment	313
Staples	Retailing	300
F & M Trust Company	Financial Services	285
K-Mart Regional Specialty Center	Distribution Warehousing	263
Borough of Chambersburg	Municipal Government	194

The Borough of Chambersburg is considered the employment center for the region. Over 20,000 people work in the Borough on a daily basis.

However, within just five miles of Chambersburg there are a number of significant employers that add to the vitality of the community. Those employers are as follows:

EMPLOYER	PRIMARY BUSINESS	<u>AVERAGE NUMBER OF EMPLOYEES</u>
Letterkenny Army Depot/Tenants	Repair Military Vehicles and Missiles/Misc.	3,880
Target Distribution Center	Distribution Warehousing	600
Martins Famous Pastry Shop	Potato Bread and Rolls	480
Ingram Book Group Inc.	Book Distribution	350
WalMart	Retailing	334
Valley Quarries	Stone and Asphalt Products	285

FINANCIAL INFORMATION

Borough management has taken the initiative to prepare a Comprehensive Annual Financial Report (CAFR) starting with fiscal year ending 12/31/04 and thereafter. The CAFR provides readers of our financial statements with much additional information relating to the financial condition of the Borough of Chambersburg. Among these include information regarding our local taxpayers, employers and a plethora of similar information encompassing the past ten years. We are honored and pleased that our efforts have resulted in our receiving the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) for every year a CAFR has been prepared. We are again cognizant of the implications of our continuing to strive for such a prestigious award and will continue to pursue it. With this award, we have been designated as having attained the "highest standards in governmental accounting and financial reporting".

Accounting/Budgetary Control System

Internal Controls. To provide reasonable assurance of the reliability of the information underlying the Borough of Chambersburg's financial statements, management of the Borough is responsible for the establishment and maintenance of an internal control system that provides reasonable, but not absolute, assurance that:

1. The Borough's assets are protected against loss and unauthorized use or disposition: and
2. Adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America

The concept of reasonable assurance recognizes that:

1. The cost of control should not exceed the benefits likely to be derived; and
2. The valuation of costs and benefits requires estimates and judgments by management

As a recipient of federal and state financial assistance, the Borough is responsible for ensuring that adequate controls are in place to ensure and document compliance with applicable laws and regulations related to these programs.

Budgetary Controls. Town Council approves an annual budget for all funds and approves subsequent adjustments to that budget as needed. The “legal level of control” is the level of detail as approved by Council in its appropriation actions and ordinances. Total expenditures and encumbrances cannot exceed the amount approved by Council at the legal level of control. Legal level of control for the Borough is based on departmental level.

A purchasing control system is maintained which generally requires that an applicable appropriation be controlled through the issuance of encumbrances, authorized purchase orders and work orders before a purchase may be made or a contract executed.

Long Term Financial Planning

The Borough of Chambersburg Capital Improvements Plan is a five-year plan reflecting the programming and prioritization of capital improvement needs beginning in year 2011. The plan is not a budget but rather a multi-year approach to capital improvements planning and analysis. The plan incorporates projects and proposals that may, in final analysis, not receive funding or that may be programmed for a future year.

The plan defines capital projects accordingly:

- A project related to a fixed asset according to the Fixed Asset Policy adopted by Town Council.
- A project that adds value or useful life to a fixed asset.
- A project involving buildings, facilities, land or easements as long as title does not expire in less than twenty-one years.
- A project involving buildings, facilities, land or easements as long as the useful life of such is twenty years or greater and the fair market value is greater than \$5,000.
- A project involving technology, vehicles or equipment as long as the useful life of such is two years or greater and the fair market value is greater than \$5,000.

Capital improvement needs for a particular fiscal year are budgeted in a variety of accounts due to the complexity of the Borough budget. Regardless of their placement in the budget, projects require the approval of Town Council in scheduling and appropriation. Should the project be approved in a future budget, the recommended funding source will be set. As such, the plan is subject to change as Town Council adjusts spending limits going forward.

CHANGES IN FINANCIAL POLICIES

There were no changes in financial policies that had a significant impact on the current period's financial statements.

INDEPENDENT AUDIT

The independent accounting firm, Smith Elliott Kearns & Company, LLC, audited the basic financial statements of the Borough of Chambersburg for fiscal year 2011. The financial statements have received an unqualified opinion indicating that, in all material respects, the Borough's basic financial

statements are presented fairly and in conformity with accounting principles generally accepted in the United States of America. Auditing standards generally accepted in the United States of America and the standards set forth in the General Accounting Office's Government Auditing Standards were used by the auditors in conducting the engagement. The auditors' report on internal controls and compliance with applicable laws and regulations can be found in the report.

ACKNOWLEDGMENTS

The preparation of this **comprehensive annual financial report** has been made possible by the efforts of virtually every member of the Finance Department. We were fortunate to have the assistance of others throughout the Borough. I am very appreciative of their efforts, especially for the high level of cooperation that I have learned to expect from them all.

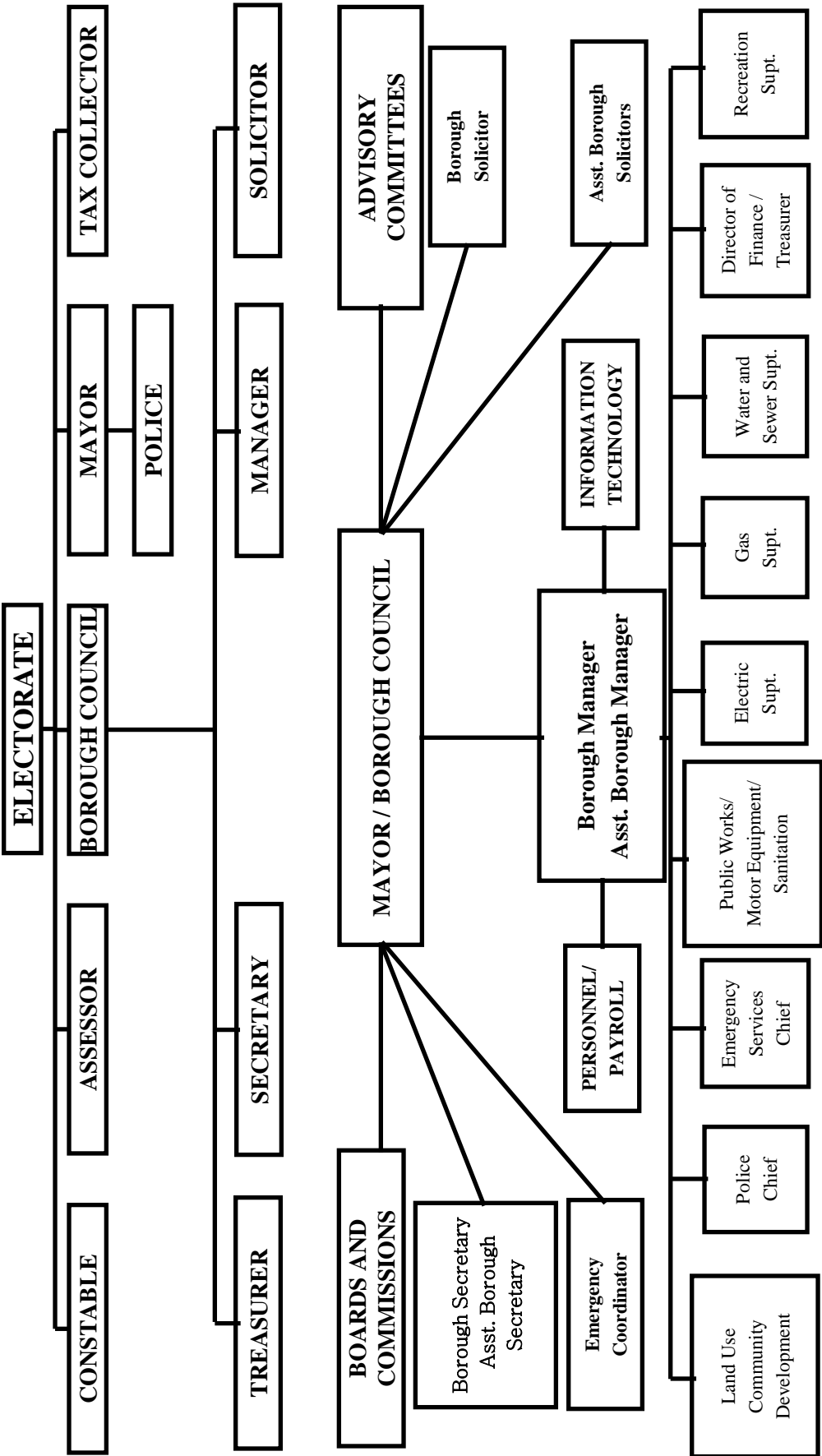
Our Borough Manager, Jeffrey Stonehill, has been an effective leader in instituting the difficult changes necessary for the long term financial success of the Borough. I thank him for the confidence he has demonstrated in the Finance Department along with the support he consistently provides. I would also like to thank the Mayor and members of Borough Council for their solid unwavering leadership and the support that has promoted stability and high performance standards.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Casimir L. Rzomp, Jr.", written in a cursive style.

Casimir L. Rzomp, Jr.
Director of Finance

BOROUGH OF CHAMBERSBURG



06/08/2012

**2012-2013 ROSTER
MAYOR AND MEMBERS OF TOWN COUNCIL
OF THE BOROUGH OF CHAMBERSBURG, PENNSYLVANIA**

MAYOR

Peter Lagiovane
610 Wallace Avenue
Chambersburg, PA 17201
2010 - 2013
(r) 264-8231; Mayors Office 261-3243

COUNCILMEN

William F. McLaughlin
1306 Edgar Avenue
President of Council
First Ward 2012-2015
(c) 860-7779

Allen B. Coffman
112 Pennsylvania Avenue
Vice-President of Council
First Ward 2010-2013
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Thomas L. Newcomer
129 Highfield Lane South
Finance Chairman
Second Ward 2012-2015
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John N. Huber
234 S. Coldbrook Avenue
Second Ward 2010-2013
(r) 264-6635

Elaine M. Swartz
326 Cosell Drive
Third Ward 2012-2015
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Andrew C. Paszkowski
169 Lantern Lane
Third Ward 2010-2013
(r) 496-8543

Sharon A. Bigler
359 High Street
Assistant Finance Chairman
Fourth Ward 2012-2015
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Margret A. (Peggy) Shank
357 Glen Street
Fourth Ward 2010-2013
(r) 264-1147

Bradley J. Elter
1042 Greystone Circle
Fifth Ward 2012-2015
(r) 264-5112

Heath E. Talhelm
840 Brandon Drive
Fifth Ward 2010-2013
(r) 263-1108

Council Meetings - 7:00 P.M.
Regular Public: 2nd and 4th Mondays - Council Chambers

OFFICE ADDRESS: 100 SOUTH SECOND STREET, CHAMBERSBURG, PA 17201 * OFFICE PHONE: (717) 264-5151 EXT. 3201 OR 3254

BOROUGH OFFICERS AND OFFICIALS

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Borough Manager
Director of Utilities
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Public Works Director
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Jamia L. Wright
Borough Secretary
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Jody L. Mayer
Assistant Borough Secretary
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G. Bryan Salzmann
Borough Solicitor
(b) 263-2121

Welton J. Fischer
Assistant Borough Solicitor
(b) 264-8020

Suzanne Miller-Trinh
Assistant Borough Solicitor
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Ron Pezon
Electric Superintendent
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Jeff Heverly
Assistant to the Electric Superintendent
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John Leary
Gas Superintendent
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A. Elwood Sord
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William FitzGerald
Emergency Services Chief
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David J. Arnold
Police Chief
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Recreation Superintendent
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Julie Redding
Assistant Recreation Superintendent
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Phil Wolgemuth
Land Use and Development Director
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William F. Dubbs, Jr.
Property Maintenance Code Officer
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Casimir L. Rzomp, Jr.
Borough Treasurer/ Finance Director
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James S. Clapper
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William H. "Buzz" Shank III
Borough Tax Collector
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Financial Section



INDEPENDENT AUDITOR'S REPORT

To the Mayor and Borough Council
Borough of Chambersburg
Chambersburg, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Chambersburg, as of and for the year ended December 31, 2011, which collectively comprise the Borough's financial statements, as listed in the table of contents. These financial statements are the responsibility of the Borough of Chambersburg's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Chambersburg as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Borough has implemented the new fund balance reporting model as required by the provisions of the Governmental Accounting Standards Board (GASB) Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of January 1, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2012 on our consideration of the Borough of Chambersburg's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



To the Mayor and Borough Council
Borough of Chambersburg

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15, the schedules of historical pension information and funding progress - OPEB on pages 51 through 53, and budgetary comparison schedules on pages 54 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Chambersburg's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
June 25, 2012

BOROUGH OF CHAMBERSBURG, PENNSYLVANIA

Management's Discussion and Analysis for the Year Ended December 31, 2011 Unaudited

The management of the Borough of Chambersburg provides the following information as an introduction, overview, and analysis of the Borough's financial statements for the year ended December 31, 2011. Readers should also review the basic financial statements and related footnotes on pages 16-50 to further enhance their understanding of the Borough's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can first understand the Borough of Chambersburg as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Assets and Statement of Activities (referred to collectively as the government-wide statements) provide information about the activities as an entire operating entity, presenting both an aggregate view of the Borough's finances and a longer-term view of those assets and liabilities. Major fund statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The proprietary funds' statements are prepared on the same basis as the government-wide statements.

Reporting on the Borough of Chambersburg as a Whole

Statement of Net Assets and Statement of Activities

These government-wide statements answer the question "How did the Borough as a whole do financially during 2011?" They are prepared on the accrual basis of accounting, much the same way as for a private enterprise. This basis of accounting includes all assets and liabilities and takes into account all of the reporting year's revenues and expenses regardless of when the cash was received or paid.

- *The Statement of Net Assets.* This statement (page 16) reports all assets and liabilities of the Borough as of December 31, 2011. The difference between total assets and total liabilities is reported as "net assets". Increases in net assets generally indicate an improvement in financial position while decreases may indicate a deterioration of financial position.
- *The Statement of Activities.* This statement (page 17) serves the purpose of the traditional income statement. It provides consolidated reporting of the results of all activities of the Borough for the year ended December 31, 2011. Changes in net assets are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the Borough's various programs net of related revenues, as well as a separate presentation of revenues available for general purposes.

A more detailed explanation of these statements is found in note 1 on pages 27 - 37 in the Notes to the Financial Statements.

BOROUGH OF CHAMBERSBURG, PENNSYLVANIA

Management's Discussion and Analysis for the Year Ended December 31, 2011 Unaudited

Reporting on the Borough of Chambersburg's Most Significant Funds

Fund financial statements

These statements provide financial position and results of operations of the Borough's major funds. A fund is an accounting entity created to account for a specific activity or purpose. Major funds of the Borough of Chambersburg are the General Fund, Electric Fund, Gas Fund, Water Fund, and Sewer Fund. The creation of some funds is mandated by law and others are created by management to demonstrate financial compliance with budgetary or legal requirements. Funds are classified into three broad categories: governmental funds, proprietary funds, and fiduciary funds.

- ***Governmental funds.*** Governmental funds are used to account for "governmental-type" activities. Unlike the government-wide financial statements, governmental fund statements use a "flow of financial resources" measurement focus. That is to say, the operating statement of a governmental fund attempts to answer the question "Are there more or less resources that can be spent in the near future as a result of events and transactions of the reporting period?" Increases in spendable resources are reported in the operating statement as "revenues" or "other financing sources." Decreases in spendable resources are reported as "expenditures" or "other financing uses." We describe the differences between governmental funds and governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) in reconciliations presented on pages 19 and 21.

The Borough of Chambersburg maintains separate governmental funds. The governmental fund financial statements on pages 18 through 21 separately display the governmental funds considered to be major funds. All other governmental funds - the "non-major" funds - are combined into a single column. Detailed financial data for each of the non-major governmental funds is provided in combining statements in the supplementary information section of this report.

- ***Proprietary funds.*** There are two types of proprietary funds: enterprise funds and internal service funds.

Enterprise funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises for which either 1) the intent is that the costs (expenses, including depreciation) be recovered primarily through user charges, or 2) determination of net income is appropriate for management control, accountability or other purposes.

The Borough of Chambersburg's Electric, Gas, Water, and Sewer Funds are all considered to be major funds and are displayed separately in the proprietary fund statements on pages 22 through 24. The Borough has two other proprietary funds, Sanitation and Parking, the activities of which are combined into one column for non-major funds.

Internal Service funds - Often, governments wish to allocate the cost of providing certain centralized services (e.g., motor pools, data processing, warehouses) to the other departments of the government entity that uses the services. An internal service fund is the appropriate accounting mechanism when it is the intent of the government to recover the full cost of providing the service through user charges to other departments.

The Borough of Chambersburg's six internal service funds are combined into a single column in the proprietary fund financial statements. Detailed financial data for those funds can be found in the combining statements in the supplementary information section of this report.

- ***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the Borough's government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Borough's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Fiduciary fund statements are on pages 25 - 26 of this report.

BOROUGH OF CHAMBERSBURG, PENNSYLVANIA*Management's Discussion and Analysis
for the Year Ended December 31, 2011
Unaudited***Other Information*****Notes to the basic financial statements***

The notes provide additional and explanatory data. They are an integral part of the basic financial statements.

Required supplementary information

In addition to the basic financial statements and notes, this report also contains required supplementary information (RSI). RSI includes schedules of historical pension information, OPEB required schedule of funding progress and budgetary schedules for the general fund and grant programs fund. This data is on pages 51 through 55 of this report.

The Borough of Chambersburg as a Whole

The following table presents condensed information on net assets as of December 31, 2011 and 2010.

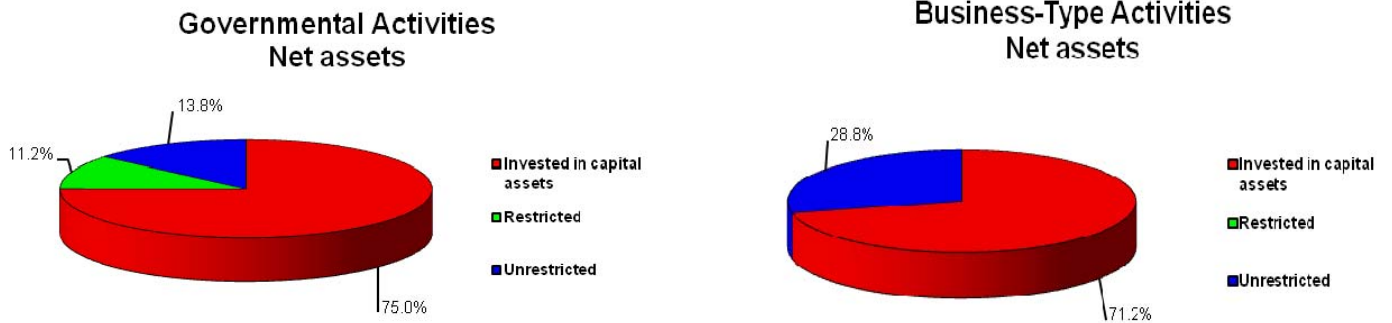
Net Assets
December 31, 2011 and 2010

	2011 Governmental Activities	2010 Governmental Activities	2011 Business-Type Activities	2010 Business-Type Activities	2011 Total	2010 Total
<u>Assets:</u>						
Current and other assets	\$ 10,404,655	\$ 10,234,270	\$ 36,248,779	\$ 36,491,702	\$ 46,653,434	\$ 46,725,972
Capital assets	25,294,014	26,005,674	96,037,222	96,906,050	121,331,236	122,911,724
Total assets	35,698,669	36,239,944	132,286,001	133,397,752	167,984,670	169,637,696
<u>Liabilities:</u>						
Current liabilities	1,014,634	836,740	6,899,204	5,521,597	7,913,838	6,358,337
Other liabilities	1,005,224	838,240	18,007,221	19,556,507	19,012,445	20,394,747
Total liabilities	2,019,858	1,674,980	24,906,425	25,078,104	26,926,283	26,753,084
<u>Net Assets:</u>						
Invested in capital assets, net of debt	25,275,852	25,907,241	76,493,701	75,126,828	101,769,553	101,034,069
Restricted	3,769,761	1,193,916	0	0	3,769,761	1,193,916
Unrestricted	4,633,198	7,463,807	30,885,875	33,192,820	35,519,073	40,656,627
Total net assets	\$ 33,678,811	\$ 34,564,964	\$ 107,379,576	\$ 108,319,648	\$ 141,058,387	\$ 142,884,612

BOROUGH OF CHAMBERSBURG, PENNSYLVANIA

Management's Discussion and Analysis for the Year Ended December 31, 2011 Unaudited

The breakdown of net assets is as follows at December 31, 2011:



In total, combined net assets were at \$141.1 million at December 31, 2011.

The following tables present condensed information on the changes in net assets for the years ended December 31, 2011 and 2010.

Changes in Net Assets For the Year Ended December 31, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Activities</u>
<u>Revenues</u>			
Program Revenues:			
Charges for services	\$ 2,213,717	\$ 50,432,160	\$ 52,645,877
Operating grants and contributions	2,189,108	518,395	2,707,503
Capital Grants and contributions	511,286	1,195,252	1,706,538
General revenues:			
Property taxes	3,797,204	0	3,797,204
Real estate transfer tax	265,172	0	265,172
Earned income tax	1,561,233	0	1,561,233
Local services tax	744,131	0	744,131
Payments in lieu of taxes	14,213	0	14,213
Investment earnings	40,144	125,701	165,845
Miscellaneous income	51,117	103,241	154,358
Total revenues	<u>\$ 11,387,325</u>	<u>\$ 52,374,749</u>	<u>\$ 63,762,074</u>

BOROUGH OF CHAMBERSBURG, PENNSYLVANIA

*Management's Discussion and Analysis
for the Year Ended December 31, 2011
Unaudited*

Changes in Net Assets (Continued)
For the Year Ended December 31, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Activities</u>
<u>Expenses</u>			
General government	\$ 1,460,984	\$ 0	\$ 1,460,984
Public safety	8,274,656	0	8,274,656
Public services	2,315,450	0	2,315,450
Community development	776,979	0	776,979
Culture and recreation	1,442,428	0	1,442,428
Electric	0	33,550,331	33,550,331
Gas	0	7,136,724	7,136,724
Water	0	2,898,515	2,898,515
Sewer	0	5,283,679	5,283,679
Other business-type activities	0	2,448,553	2,448,553
Total expenses	<u>14,270,497</u>	<u>51,317,802</u>	<u>65,588,299</u>
Excess before transfers	(2,883,172)	1,056,947	(1,826,225)
Transfers	<u>1,997,019</u>	<u>(1,997,019)</u>	<u>0</u>
Change in net assets	<u>(\$ 886,153)</u>	<u>(\$ 940,072)</u>	<u>(\$ 1,826,225)</u>

BOROUGH OF CHAMBERSBURG, PENNSYLVANIA*Management's Discussion and Analysis
for the Year Ended December 31, 2011
Unaudited***Changes in Net Assets
For the Year Ended December 31, 2010**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Activities</u>
<u>Revenues</u>			
Program Revenues:			
Charges for services	\$ 2,374,671	\$ 53,029,601	\$ 55,404,272
Operating grants and contributions	1,874,440	706,484	2,580,924
Capital Grants and contributions	1,118,987	1,320,441	2,439,428
General revenues:			
Property taxes	3,732,778	0	3,732,778
Real estate transfer tax	240,954	0	240,954
Earned income tax	1,524,001	0	1,524,001
Local services tax	757,564	0	757,564
Payments in lieu of taxes	13,408	0	13,408
Investment earnings	60,048	187,285	247,333
Miscellaneous income	24,360	124,596	148,956
Total revenues	<u>11,721,211</u>	<u>55,368,407</u>	<u>67,089,618</u>
<u>Expenses</u>			
General government	1,143,438	0	1,143,438
Public safety	8,186,805	0	8,186,805
Public services	2,113,662	0	2,113,662
Community development	313,210	0	313,210
Parks and recreation	1,931,419	0	1,931,419
Electric	0	30,413,576	30,413,576
Gas	0	7,311,796	7,311,796
Water	0	2,617,711	2,617,711
Sewer	0	5,630,067	5,630,067
Other business-type activities	0	2,236,532	2,236,532
Total expenses	<u>13,688,534</u>	<u>48,209,682</u>	<u>61,898,216</u>
Excess before transfers	(1,967,323)	7,158,725	5,191,402
Transfers	<u>1,172,220</u>	<u>(1,172,220)</u>	<u>0</u>
Change in net assets	<u><u>(\$ 795,103)</u></u>	<u><u>\$ 5,986,505</u></u>	<u><u>\$ 5,191,402</u></u>

Net assets decreased by \$1.83M in 2011 for "total activities" compared to an increase of \$5.19M in 2010 for the same "total activities". This is a \$7.02M decrease in overall performance for 2011 compared to 2010 and is the result of a decrease in revenues of \$3.33M with a corresponding increase in expenses of \$3.69M. There was \$2.99M decrease in charges for services in business-type activities with a corresponding increase of \$3.11M in expenses. Within the business-type activities, the electric department alone experienced a decrease in billed revenues of \$2.52M in 2011 while also experiencing a \$3.14M increase in expenses. This situation, which amounts to a decrease of \$6.10M in performance, can be primarily attributed to a continued and significant instability in the electric markets resulting in a corresponding increase in electric costs for 2011. Additionally, the electric purchase costs are still significantly high due to our supply agreement, which expires December 31, 2012.

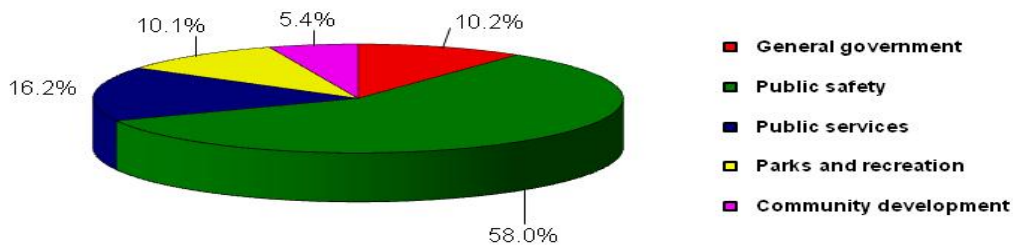
BOROUGH OF CHAMBERSBURG, PENNSYLVANIA

Management's Discussion and Analysis for the Year Ended December 31, 2011 Unaudited

The Borough's governmental activities' largest revenue source, real estate taxes, increased by \$64,426 or 1.72% in 2011. This was a larger increase than the .6% increase for the year ended December 31, 2010. The increase in real estate revenues was mainly due to an increase in the taxable assessed value of 1.96% for year ended 2011. There was no increase in the mill rate for 2011. The earned income tax receipts increased \$37,232 or 2.44% in 2011 while the real estate transfer tax increased by \$24,218 or 10.05% in 2011.

Expenses of governmental activities break down as follows:

Governmental Expenses by Program 2011



Total governmental expenses for 2011 were \$14.3 million. Public safety, which consisted primarily of police, fire and ambulance services, comprised 58% of the total governmental expenses. Public service expenses, which include streets overlaying and repairs, were 16.2%. Leisure time activities represented by the parks and recreation portion of expenses were 10.1% of the total. General government expenses were 10.2%. Community development comprised 5.4% of total expenses.

The Statement of Activities reports expenses of each of the governmental activities programs and the related program revenue that offsets the cost of each program. The amount by which the cost of a particular program exceeds its program revenue represents the extent to which that program must be subsidized by general revenues, such as property taxes, earned income taxes, local services taxes, deed transfer taxes and others.

The following table and graph summarize the net cost of each program:

Expenses and Program Revenue - Governmental Activities Year Ended December 31, 2011

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Governmental activities					
General government	\$ 1,460,984	\$ 404,010	\$ 658,538	\$ 234,832	(\$ 163,604)
Public safety	8,274,656	1,394,915	692,585	7,569	(6,179,587)
Public services	2,315,450	2,391	2,469	0	(2,310,590)
Parks and recreation	1,442,428	412,401	0	263,245	(766,782)
Community development	776,979	0	835,516	5,640	64,177
Total Governmental Activities	\$ 14,270,497	\$ 2,213,717	\$ 2,189,108	\$ 511,286	(\$ 9,356,386)

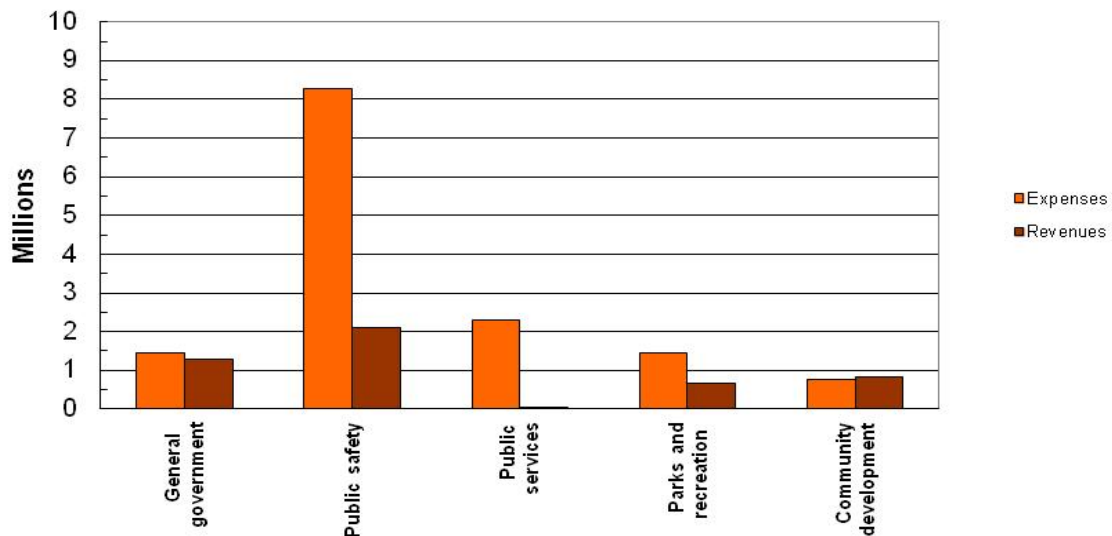
BOROUGH OF CHAMBERSBURG, PENNSYLVANIA

Management's Discussion and Analysis for the Year Ended December 31, 2011 Unaudited

Expenses and Program Revenue - Governmental Activities Year Ended December 31, 2010

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Governmental activities					
General government	\$ 1,143,438	\$ 544,572	\$ 573,290	\$ 911,521	\$ 885,945
Public safety	8,186,805	1,414,129	689,829	86,395	(5,996,452)
Public services	2,113,662	2,880	158,675	100,071	(1,852,036)
Parks and recreation	1,931,419	413,090	0	0	(1,518,329)
Community development	313,210	0	452,646	21,000	160,436
Total Governmental Activities	\$ 13,688,534	\$ 2,374,671	\$ 1,874,440	\$ 1,118,987	(\$ 8,320,436)

Expenses and Program Revenue - Governmental Activities 2011



The above chart and graph illustrates the priority that Chambersburg places on the safety of its citizens.

Business-type activities

Business-type net assets decreased \$940,072 in 2011. Each business-type activity, except for sewer and parking had a decrease in revenues. Electric revenues decreased 7.25%, gas revenues decreased 6.13%, water revenues decreased 3.78%, sewer revenues increased 11.25%, sanitation revenues increased .36% and parking department revenues increased 35.94%. The total decrease in billed revenues was \$2,597,441 or 4.9%.

BOROUGH OF CHAMBERSBURG, PENNSYLVANIA

*Management's Discussion and Analysis
for the Year Ended December 31, 2011
Unaudited*

The following table and graph summarize the expenses and program revenues for business-type activities:

**Expenses and Program Revenue - Business-type Activities
For Year Ended December 31, 2011**

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Electric	\$ 33,550,331	\$ 32,243,631	\$ 174,312	\$ 100,000	(\$ 1,032,388)
Gas	7,136,724	7,812,764	76,220	24,100	776,360
Water	2,898,515	3,075,317	99,055	0	275,857
Sewer	5,283,679	5,084,952	79,886	1,071,152	952,311
Sanitation	2,274,672	2,032,789	80,156	0	(161,727)
Parking	173,881	182,707	8,766	0	17,592
Total business-type activities	<u>\$ 51,317,802</u>	<u>\$ 50,432,160</u>	<u>\$ 518,395</u>	<u>\$ 1,195,252</u>	<u>\$ 828,005</u>

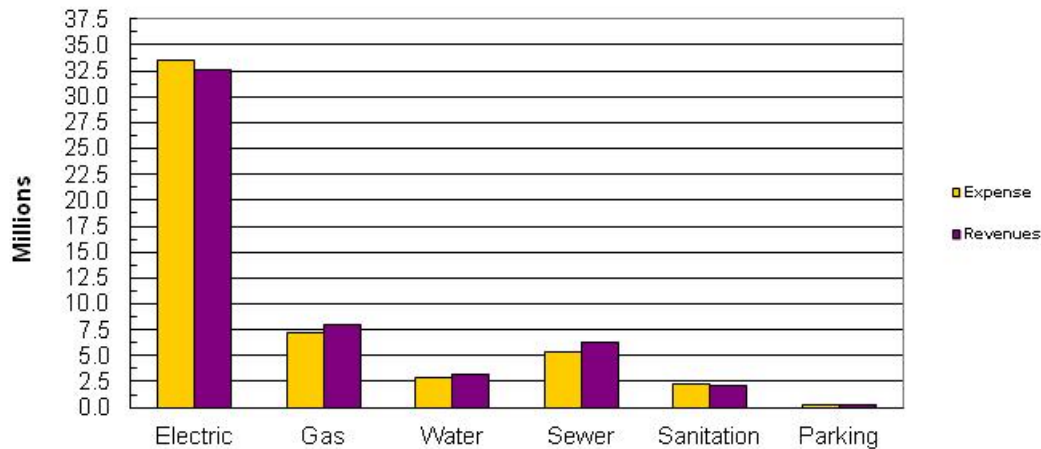
**Expenses and Program Revenue - Business-type Activities
For Year Ended December 31, 2010**

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Electric	\$ 30,413,576	\$ 34,765,216	\$ 51,364	\$ 272,216	\$ 4,675,220
Gas	7,311,796	8,323,329	22,875	59,660	1,094,068
Water	2,617,711	3,196,140	487,552	338,700	1,404,681
Sewer	5,630,067	4,570,569	23,269	649,865	(386,364)
Sanitation	2,070,085	2,039,950	113,744	0	83,609
Parking	166,447	134,397	7,680	0	(24,370)
Total business-type activities	<u>\$ 48,209,682</u>	<u>\$ 53,029,601</u>	<u>\$ 706,484</u>	<u>\$ 1,320,441</u>	<u>\$ 6,846,844</u>

BOROUGH OF CHAMBERSBURG, PENNSYLVANIA

Management's Discussion and Analysis for the Year Ended December 31, 2011 Unaudited

Expenses and Program Revenue - Business-Type Activities 2011



Individual funds summary and analysis

Governmental funds focus on spendable resources and near-term inflows and outflows of those resources. As such, fund balance is generally a good indicator of net resources available for spending at the end of the fiscal year, subject to any stated restrictions on its use.

The combined fund balances of the Borough's governmental funds at December 31, 2011 were \$5.0 million as compared to \$5.5 million at December 31, 2010.

The General Fund is the primary operating fund of the Borough of Chambersburg, accounting for such activities as police and fire protection, ambulance services, highways, parks and recreation, and general governmental services. The General Fund balance decreased from \$1,375,034 to \$1,259,867.

Budget variations

Operations for the Borough's general fund resulted in an overall favorable net budget variance of \$64,978 for the year ended December 31, 2011. That means that we had \$64,978 more in net cash inflows than we budgeted. We budgeted a net excess of expenditures over net revenues of \$180,325 (negative) but finished the year with a net excess of expenditures over revenues of \$115,347 (negative). Total expenditures exceeded total revenues by \$2,383,075 and net interfund transfers from other Borough funds amounted to \$2,267,728 creating the overall negative results of \$115,347 for net receipts or "net change in fund balance".

We had a favorable budget variance of \$23,144 or .19% of total budgeted expenditures (\$11,953,675). We also had a favorable budget variance of \$53,106 or .55% of total budgeted revenues (\$9,494,350). Also, we transferred \$11,272 more out of the general fund than was budgeted.

Of the favorable revenue variance (\$53,106), the lion's share or \$219,259 (over 100%) was due to an underestimate in the budgeted amount of charges for services to other Borough departments. However, we overestimated tax revenues by \$180,369 whereas we budgeted receipts of taxes at \$6,537,500 and had actual receipts of \$6,357,131 resulting in the unfavorable variance in tax revenues. Unfortunately, activity in the local economy is still at a lower level than was predicted.

BOROUGH OF CHAMBERSBURG, PENNSYLVANIA

Management's Discussion and Analysis for the Year Ended December 31, 2011 Unaudited

On the expenditure side, the favorable variance (\$23,144) can be mostly attributed to the stellar performance of the recreation department. We overestimated expenditures by \$227,255 whereby we budgeted \$1,408,050 and actually spent \$1,180,795.

Changes in revenue and expenditure levels

In looking at the performance of the general fund for 2011, we had an overall improvement of \$648,849 in 2011 as compared to 2010. This can be seen as an improvement in the “**net change in fund balance**” (*ncfb*) between the two years. In 2011, we finished the year with a *ncfb* of (\$115,347) (negative) compared to (\$764,196) (negative) for 2010. Most of this improvement, or \$593,000 (91%), can be attributed to an increase in the amount of funds transferred from other departments into the general fund. Specifically, we increased the amount transferred from the liquid fuels tax fund into the general fund by \$400,000 (67%). This transfer was made possible due to a very conservative approach in drawing cash from this fund in previous years thus increasing cash availability. Obviously, there will be less funds available for draw down from this fund in subsequent years. The amount to be transferred from the liquid fuels tax fund into the general fund in 2012 is budgeted at \$400,000 or a reduction of 60% from 2011.

Without changes in transfers to and from other departments, we would have ended the year with a *ncfb* of (\$949,075) (negative) for 2011 for the general fund. This would be apparent in the *ncfb* for 2011. This would also have resulted in a deficiency in performance for 2011 of \$184,879 compared to 2010 as opposed to the improvement mentioned previously.

With a minor increase in expenditures of \$59,909 or .5%, the projected deficiency, \$184,879 (without transfers) for the general fund in *ncfb* for 2011 can be mostly attributed to a reduction in charges for services of \$153,733 or 8.58%. These are a variety of services (merchandise & jobbing) provided by the general fund.

Changes in fund balance

The fund balance in the general fund decreased by \$115,347 in 2011. This was because total expenditures (\$11,953,675) exceeded total revenues (\$9,547,456) by \$2,383,075. Net transfers (\$2,267,728) from other departments offset a large portion of the deficiency leaving \$115,347 as the net decrease in fund balance for the general fund. The primary reason for the decrease in resources available to the general fund is the large excess of expenditures over revenues. Since the net reduction in fund balance for 2010 was a dismal \$764,196, a comparison of performance for the general fund between 2010 and 2011 can only be looked upon as relative. In other words, a net improvement in performance from 2010 to 2011 is really not as important as the total reduction in fund balance over the past several years. The decrease in fund balance for 2011 (\$115,347) was definitely better than the decrease in fund balance for 2010 (\$764,196). Unfortunately, the total reduction in fund balance for the past two years has amounted to \$879,543. Additionally, the ending fund balance of the general fund for 2011 was \$1,259,687.

The fund balance in the grants program fund increased by \$57,007 in 2011. Revenues increased by \$304,444 to \$1,134,686 in 2011 while expenditures increased by \$442,769 to \$1,101,569. This increase in resources of \$33,117 plus an increase in transfers from (\$86,288) in 2010 to \$23,890 in 2011 of \$110,178 helped to increase the fund balance by \$57,007. This is in comparison to an increase in fund balance of \$85,154 for 2010.

The net assets in the enterprise funds decreased by \$337,611 or .34% in 2011 compared to an increase of \$5,333,060 or 5.72% in 2010. Operating revenues in the enterprise funds decreased by \$2,542,565 or 4.83%. Most of the decrease in operating revenues for 2011 can be attributed to a decrease of \$2,552,080 or 7.35% in operating revenues in the electric department. Additionally, operating expenditures increased by \$2,818,050 or 9.26%. Net assets of the electric department decreased by \$1,892,289 or 5.10% in 2011. A major reason for the decrease in operating revenues is a reduction in electric rates by Borough Council in both July, 2010 (7.5%) and November, 2010 (7.5%). Additionally, our production costs increased due to the Borough's inability to “self generate” electricity due to low demand in 2011. This resulted in a substantial cost increase in electricity that we were unable to pass on to our customers.

Net assets of the gas department increased by \$426,105 or 3.73% while that of the water department increased by \$273,300 or 1.00%; and sewer \$983,096 or 4.57%. Additionally, the net assets of the other enterprise funds (sanitation and parking) decreased by \$127,823 or 7.93%.

BOROUGH OF CHAMBERSBURG, PENNSYLVANIA

Management's Discussion and Analysis for the Year Ended December 31, 2011 Unaudited

Also, the net assets in the internal service funds decreased by \$179,662 or 1.24% compared to an increase of \$685,039 or 4.99% in 2010. Revenues increased by \$798,464 or 17.08 % while expenses increased by \$1,365,113 or 33.9%.

Capital asset and debt administration

Capital asset activity

The Borough continued to make investment in infrastructure and equipment upgrades by utilizing state liquid fuels proceeds and utility capital reserves. In 2011, the Highway Department constructed a new salt storage shed for \$169,000; and overlay, curb & sidewalk construction along Wilson Avenue for \$313,684. Woodlawn Avenue, William Penn, and Meadow Lane each received a new street surface for \$43,247. The Highway Department installed their first traffic calming device, a raised platform intersection along Norland Avenue for \$5,800. The Borough's Recreation Department undertook significant repairs at the Eugene Clarke Jr. Community Center including a new efficient HVAC unit in Bard Hall, a new high efficiency water heater, and stripped and waxed tile floors throughout the building. At Mill Creek Acres Park, the Recreation Department installed two new playground units & swings as well as other improvements. Using a federal grant, the Borough constructed and opened a new section of the Cumberland Valley Rails to Trails; a .6 mile southern extension of the trail to S. Main Street including new benches, trash receptacles, picnic table, a parking lot, and landscaping. The total cost of this project was \$262,945. The Water Department undertook various street overlay projects, Water Treatment Plant upgrades including electrical, mechanical, controls, and safety upgrades to the facility for \$1,850,000; Outlet Works upgrades including video inspection of intake conduit, wet well, discharge conduit, and drywell within the control tower facility for \$20,100; and an Embankment Monitoring survey on the dam slope for \$25,110. The Sewer Department purchased a Sewer Camera Truck for \$113,000; they began the first phase of a multi-phase project to upgrade the J. Hase Mowrey Regional Wastewater Treatment Facility, which in the end will cost over \$39 million with the majority paid by grants and the neighboring townships who utilize this facility. The first phase, the upgrade of the Ultra-Violet disinfection system and a new force main had a total cost \$1.4 million utilizing a \$1 million H2O Grant. Finally, the Chambersburg Emergency Services Department undertook upgrades at the McKinley Street Fire Station and IT Department installed new computer servers. Finally, the Gas and Water & Sewer Departments continued to replace and upgrade many service laterals and valves in order to stay ahead of significant capital needs.

In 2011, no new debt was issued for any of these projects, although it is likely the balance of the upgrades to the J. Hase Mowrey Regional Wastewater Treatment Facility, as well as other future capital projects in Water and Electric, may require debt financing.

Additional detail on the capital asset activity for the year ended December 31, 2011 is presented in the Notes to the Basic Financial Statements in note 4.

Debt

A summary of outstanding debt at December 31, 2011 and 2010 is as follows:

	<u>General Obligation Bonds</u>	
	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Governmental activities	\$ 0	\$ 0
Business-type activities	16,460,000	17,900,000
	<u>Pennsylvania ("Pennvest" Water Projects)</u>	
Governmental activities	0	0
Business-type activities	<u>2,640,542</u>	<u>2,845,376</u>
Total outstanding debt	<u>\$ 19,100,542</u>	<u>\$ 20,745,376</u>

Additional detailed data for all debt of the Borough of Chambersburg is presented in the Notes to the Basic Financial Statements in note 5.

BOROUGH OF CHAMBERSBURG, PENNSYLVANIA

*Management's Discussion and Analysis
for the Year Ended December 31, 2011
Unaudited*

Contacting the Borough's management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with an overview of the Borough's finances. If you have questions or need additional financial information, please contact the Director of Finance, Borough of Chambersburg, 100 South Second Street, Chambersburg, PA 17201.

BOROUGH OF CHAMBERSBURG

STATEMENT OF NET ASSETS

December 31, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and equity in pooled cash and investments	\$ 8,184,098	\$ 26,676,528	\$ 34,860,626
Taxes receivable, net of allowance	351,769	0	351,769
Accounts receivable, net of allowance	257,606	6,079,353	6,336,959
Due from other governments	735,020	386,078	1,121,098
Other receivables	119,843	55,202	175,045
Inventories	506,298	2,881,860	3,388,158
Prepaid expenses	888	44,095	44,983
Total current assets	<u>10,155,522</u>	<u>36,123,116</u>	<u>46,278,638</u>
Noncurrent assets			
Noncurrent receivables	249,133	0	249,133
Deferred charges	0	125,663	125,663
Capital assets not being depreciated:			
Land	403,329	835,719	1,239,048
Construction in progress	238,366	5,447,613	5,685,979
Capital assets net of accumulated depreciation:			
Utility plant in service	0	87,114,827	87,114,827
Land improvements	2,152,352	26,070	2,178,422
Buildings and improvements	1,518,945	235,023	1,753,968
Machinery, equipment and furniture	1,938,363	2,377,970	4,316,333
Infrastructure	19,042,659	0	19,042,659
Total noncurrent assets	<u>25,543,147</u>	<u>96,162,885</u>	<u>121,706,032</u>
Total assets	<u>\$ 35,698,669</u>	<u>\$ 132,286,001</u>	<u>\$ 167,984,670</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 296,748	\$ 4,241,002	\$ 4,537,750
Accrued wages and withholdings	58,758	85,424	144,182
Accrued interest expense	0	197,280	197,280
Unearned revenues	111,323	103,485	214,808
Long-term liabilities: Due within one year			
Bonds and notes payable	0	1,645,836	1,645,836
Compensated absences	400,366	362,349	762,715
Liability for self-insured losses	147,439	263,828	411,267
Total current liabilities	<u>1,014,634</u>	<u>6,899,204</u>	<u>7,913,838</u>
Noncurrent liabilities			
Long-term liabilities: Due in more than one year			
Bonds and notes payable	0	17,087,628	17,087,628
Compensated absences	205,045	407,497	612,542
Net OPEB obligation	579,892	117,914	697,806
Liability for self-insured losses	220,287	394,182	614,469
Total noncurrent liabilities	<u>1,005,224</u>	<u>18,007,221</u>	<u>19,012,445</u>
Total liabilities	<u>2,019,858</u>	<u>24,906,425</u>	<u>26,926,283</u>
NET ASSETS			
Invested in capital assets, net of related debt	25,275,852	76,493,701	101,769,553
Restricted	3,769,761	0	3,769,761
Unrestricted	4,633,198	30,885,875	35,519,073
Total net assets	<u>33,678,811</u>	<u>107,379,576</u>	<u>141,058,387</u>
Total liabilities net assets	<u>\$ 35,698,669</u>	<u>\$ 132,286,001</u>	<u>\$ 167,984,670</u>

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF CHAMBERSBURG

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ 1,460,984	\$ 404,010	\$ 658,538	\$ 234,832	(\$ 163,604)	\$ 0	(\$ 163,604)
Public safety	8,274,656	1,394,915	692,585	7,569	(6,179,587)	0	(6,179,587)
Public works	2,315,450	2,391	2,469	0	(2,310,590)	0	(2,310,590)
Culture and recreation	1,442,428	412,401	0	263,245	(766,782)	0	(766,782)
Community development	776,979	0	835,516	5,640	64,177	0	64,177
Total governmental activities	<u>14,270,497</u>	<u>2,213,717</u>	<u>2,189,108</u>	<u>511,286</u>	<u>(9,356,386)</u>	<u>0</u>	<u>(9,356,386)</u>
Business-type activities							
Electric	33,550,331	32,243,631	174,312	100,000	0	(1,032,388)	(1,032,388)
Gas	7,136,724	7,812,764	76,220	24,100	0	776,360	776,360
Water	2,898,515	3,075,317	99,055	0	0	275,857	275,857
Sewer	5,283,679	5,084,952	79,886	1,071,152	0	952,311	952,311
Sanitation	2,274,672	2,032,789	80,156	0	0	(161,727)	(161,727)
Parking	173,881	182,707	8,766	0	0	17,592	17,592
Total business-type activities	<u>51,317,802</u>	<u>50,432,160</u>	<u>518,395</u>	<u>1,195,252</u>	<u>0</u>	<u>828,005</u>	<u>828,005</u>
Total primary government	<u>\$ 65,588,299</u>	<u>\$ 52,645,877</u>	<u>\$ 2,707,503</u>	<u>\$ 1,706,538</u>	<u>(\$ 9,356,386)</u>	<u>\$ 828,005</u>	<u>(\$ 8,528,381)</u>
General revenues and transfers:							
Taxes:							
Property taxes, levied for general purposes					\$ 3,797,204	\$ 0	\$ 3,797,204
Real estate transfer tax					265,172	0	265,172
Earned income tax					1,561,233	0	1,561,233
Local services tax					744,131	0	744,131
Other taxes					14,213	0	14,213
Unrestricted investment earnings					40,144	125,701	165,845
Miscellaneous income					51,117	103,241	154,358
Transfers					<u>1,997,019</u>	<u>(1,997,019)</u>	<u>0</u>
Total general revenues and transfers					<u>8,470,233</u>	<u>(1,768,077)</u>	<u>6,702,156</u>
Change in net assets					(886,153)	(940,072)	(1,826,225)
Net assets - beginning					<u>34,564,964</u>	<u>108,319,648</u>	<u>142,884,612</u>
Net assets - ending					<u>\$ 33,678,811</u>	<u>\$ 107,379,576</u>	<u>\$ 141,058,387</u>

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF CHAMBERSBURG**BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2011**

	General Fund	Special Revenue Fund - Grant Programs	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and equity in pooled cash and investments	\$ 692,532	\$ 274,213	\$ 3,141,381	\$ 4,108,126
Taxes receivable, net	351,769	0	0	351,769
Receivable from other governments	561,473	68,558	0	630,031
Other receivables, net	213,306	192,183	203,927	609,416
Total assets	<u>\$ 1,819,080</u>	<u>\$ 534,954</u>	<u>\$ 3,345,308</u>	<u>\$ 5,699,342</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 128,330	\$ 91,805	\$ 18,162	\$ 238,297
Deferred revenue	380,375	43	0	380,418
Accrued wages, benefits and withholdings	50,688	491	0	51,179
Total liabilities	<u>559,393</u>	<u>92,339</u>	<u>18,162</u>	<u>669,894</u>
Fund balances				
Nonspendable for long term receivables	0	58,809	190,324	249,133
Restricted	0	383,806	3,136,822	3,520,628
Unassigned	1,259,687	0	0	1,259,687
Total fund balances	<u>1,259,687</u>	<u>442,615</u>	<u>3,327,146</u>	<u>5,029,448</u>
Total liabilities and fund balances	<u>\$ 1,819,080</u>	<u>\$ 534,954</u>	<u>\$ 3,345,308</u>	<u>\$ 5,699,342</u>

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF CHAMBERSBURG

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
December 31, 2011**

Total fund balance - governmental funds \$ 5,029,448

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.

Cost of assets	\$ 36,965,326	
Accumulated depreciation	(12,717,098)	24,248,228

Taxes receivable are not available soon enough to pay for the current period's expenditures, and therefore are offset by deferred revenue in the fund financial statements.

359,744

Net Other Post Employment Benefits (OPEB) obligation does not require the use of current financial resources and, therefore, is not reported as a liability in the governmental funds.

(569,635)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, motor equipment, engineering, and others, to individual funds. A portion of these assets and liabilities of the internal service funds are included in the governmental activities and are allocated based on the usage of those funds by the governmental funds.

5,103,185

Long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of compensated absences.

(492,159)

Total net assets - governmental activities

\$ 33,678,811

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF CHAMBERSBURG

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2011

	General Fund	Special Revenue Fund - Grant Programs	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 6,357,131	\$ 0	\$ 0	\$ 6,357,131
Licenses and permits	320,776	0	0	320,776
Fines and forfeits	122,283	0	0	122,283
Investment earnings	5,517	51	17,209	22,777
Intergovernmental	967,146	1,081,211	370,483	2,418,840
Charges for services	1,638,809	0	0	1,638,809
Contributions and donations	0	0	134,832	134,832
Miscellaneous	135,794	53,424	108,282	297,500
Total revenues	<u>9,547,456</u>	<u>1,134,686</u>	<u>630,806</u>	<u>11,312,948</u>
EXPENDITURES				
Current:				
General government	956,168	59,043	12,047	1,027,258
Public Safety				
Police department	4,194,733	22,225	13,710	4,230,668
Fire department	2,321,754	56,647	33,775	2,412,176
General health and ambulance service	1,042,318	0	10,888	1,053,206
Planning and zoning	537,731	0	0	537,731
Public works				
Highways	1,163,884	190,926	92,687	1,447,497
Other	453,549	0	22,638	476,187
Culture and recreation	1,180,795	266,984	107,973	1,555,752
Community development	0	505,744	63,133	568,877
Miscellaneous expenditures	79,599	0	0	79,599
Total expenditures	<u>11,930,531</u>	<u>1,101,569</u>	<u>356,851</u>	<u>13,388,951</u>
Excess (deficiency) of revenues over expenditures	<u>(2,383,075)</u>	<u>33,117</u>	<u>273,955</u>	<u>(2,076,003)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,577,000	29,334	330,716	2,937,050
Transfers out	<u>(309,272)</u>	<u>(5,444)</u>	<u>(1,024,334)</u>	<u>(1,339,050)</u>
Total other financing sources and uses	<u>2,267,728</u>	<u>23,890</u>	<u>(693,618)</u>	<u>1,598,000</u>
Net change in fund balances	<u>(115,347)</u>	<u>57,007</u>	<u>(419,663)</u>	<u>(478,003)</u>
Fund balances - beginning	<u>1,375,034</u>	<u>385,608</u>	<u>3,746,809</u>	<u>5,507,451</u>
Fund balances - ending	<u>\$ 1,259,687</u>	<u>\$ 442,615</u>	<u>\$ 3,327,146</u>	<u>\$ 5,029,448</u>

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF CHAMBERSBURG

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2011

Net change in fund balances - total governmental funds: (\$ 478,003)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense differs from capital outlays in the period.

Depreciation expense	(\$ 1,282,126)	
Capital outlays	<u>522,265</u>	
	(759,861)

In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase other financing sources. Thus, the change in net assets differs from the changes in the fund balance by the cost of the capital assets sold

(406)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.

24,822

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the net amount earned or (used) was:

42,032

Net Other Post Employment Benefits (OPEB) obligation does not require the use of current financial resources and, therefore, is not reported as an expense in the governmental funds.

(137,537)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

422,800

Change in net assets - governmental activities (\$ 886,153)

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF CHAMBERSBURG

STATEMENT OF NET ASSETS PROPRIETARY FUNDS December 31, 2011

	Enterprise Funds		
	Electric Fund	Gas Fund	Water Fund
ASSETS			
Current assets			
Cash and equity in pooled cash and investments	\$ 3,408,421	\$ 2,385,254	\$ 10,255,498
Accounts receivable, net	3,292,838	1,190,299	310,588
Receivables from other governments	0	0	59,171
Other receivables	6,921	4,842	20,762
Inventories	738,714	1,097,142	46,988
Prepaid expenses	32,675	2,309	2,606
Total current assets	<u>7,479,569</u>	<u>4,679,846</u>	<u>10,695,613</u>
Noncurrent assets			
Deferred charges	100,919	0	0
Capital assets			
Land	447,512	37,716	206,068
Buildings and system	68,458,471	12,155,276	27,909,878
Improvements other than buildings	36,941	0	0
Machinery and equipment	586,891	202,378	294,887
Construction in progress	708,288	495,307	2,732,747
Less accumulated depreciation	(25,458,382)	(4,973,913)	(11,313,920)
Total capital assets	<u>44,779,721</u>	<u>7,916,764</u>	<u>19,829,660</u>
Total noncurrent assets	<u>44,880,640</u>	<u>7,916,764</u>	<u>19,829,660</u>
Total assets	<u>\$ 52,360,209</u>	<u>\$ 12,596,610</u>	<u>\$ 30,525,273</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 2,791,030	\$ 571,647	\$ 110,371
Accrued wages payable	20,232	9,605	9,888
Accrued interest payable	168,021	0	7,093
Unearned revenue	34,520	68,965	0
Compensated absences - current	100,664	43,834	44,847
Liability for self insured losses - current	0	0	0
Bonds, notes and loans payable - current	945,007	0	211,762
Total current liabilities	<u>4,059,474</u>	<u>694,051</u>	<u>383,961</u>
Noncurrent liabilities			
Compensated absences	114,626	26,634	44,230
Liability for self insured losses	0	0	0
Net OPEB obligation	35,673	15,595	20,271
Bonds, notes and loans payable	12,947,672	0	2,428,780
Total noncurrent liabilities	<u>13,097,971</u>	<u>42,229</u>	<u>2,493,281</u>
Total liabilities	<u>17,157,445</u>	<u>736,280</u>	<u>2,877,242</u>
NET ASSETS			
Invested in capital assets, net of related debt	30,688,317	7,913,367	17,114,575
Unrestricted	4,514,447	3,946,963	10,533,456
Total net assets	<u>35,202,764</u>	<u>11,860,330</u>	<u>27,648,031</u>
Total liabilities and net assets	<u>\$ 52,360,209</u>	<u>\$ 12,596,610</u>	<u>\$ 30,525,273</u>

Enterprise Funds			Internal Service Funds
Sewer Fund	Other Enterprise Funds	Total	
\$ 2,102,555	\$ 1,231,255	\$ 19,382,983	\$ 11,369,517
1,099,440	171,385	6,064,550	24,807
301,247	0	360,418	40,000
4,264	2,499	39,288	23,076
93,047	0	1,975,891	1,412,267
3,881	1,035	42,506	2,477
<u>3,604,434</u>	<u>1,406,174</u>	<u>27,865,636</u>	<u>12,872,144</u>
24,744	0	125,663	0
24,299	111,153	826,748	13,984
41,986,565	75,529	150,585,719	159,551
0	55,737	92,678	0
396,537	569,318	2,050,011	7,203,923
1,511,271	0	5,447,613	0
(22,458,979)	(631,686)	(64,836,880)	(4,460,339)
<u>21,459,693</u>	<u>180,051</u>	<u>94,165,889</u>	<u>2,917,119</u>
<u>21,484,437</u>	<u>180,051</u>	<u>94,291,552</u>	<u>2,917,119</u>
<u>\$ 25,088,871</u>	<u>\$ 1,586,225</u>	<u>\$ 122,157,188</u>	<u>\$ 15,789,263</u>
\$ 651,069	\$ 23,589	\$ 4,147,706	\$ 163,044
11,956	8,885	60,566	21,140
22,166	0	197,280	0
0	0	103,485	0
56,282	30,590	276,217	134,267
0	0	0	411,267
489,067	0	1,645,836	0
<u>1,230,540</u>	<u>63,064</u>	<u>6,431,090</u>	<u>729,718</u>
77,183	28,303	290,976	181,638
0	0	0	614,469
16,358	11,663	99,560	28,611
<u>1,711,176</u>	<u>0</u>	<u>17,087,628</u>	<u>0</u>
<u>1,804,717</u>	<u>39,966</u>	<u>17,478,164</u>	<u>824,718</u>
<u>3,035,257</u>	<u>103,030</u>	<u>23,909,254</u>	<u>1,554,436</u>
18,726,058	180,051	74,622,368	2,917,119
<u>3,327,556</u>	<u>1,303,144</u>	<u>23,625,566</u>	<u>11,317,708</u>
<u>22,053,614</u>	<u>1,483,195</u>	<u>98,247,934</u>	<u>14,234,827</u>
<u>\$ 25,088,871</u>	<u>\$ 1,586,225</u>	<u>\$ 122,157,188</u>	<u>\$ 15,789,263</u>

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds' assets and liabilities are included with business-type activities

9,131,642

Net assets of business-type activities

\$ 107,379,576

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF CHAMBERSBURG

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS**

For the Year Ended December 31, 2011

	Enterprise Funds		
	Electric Fund	Gas Fund	Water Fund
OPERATING REVENUES			
Charges for services	\$ 31,691,214	\$ 7,795,428	\$ 2,843,611
Miscellaneous	463,562	17,336	100,770
Total operating revenues	<u>32,154,776</u>	<u>7,812,764</u>	<u>2,944,381</u>
OPERATING EXPENSES			
Production, gathering, treatment and transmission	2,648,307	576,473	1,677,237
Operation and maintenance	0	0	0
Collection and disposal	0	0	0
Purchase of energy for sale	26,443,877	5,176,856	0
Customer accounting and administrative	1,952,831	1,067,712	691,149
Claim payments and special services	0	0	0
Increase (decrease) in expected unpaid losses	0	0	0
Depreciation and amortization	<u>1,920,877</u>	<u>293,298</u>	<u>431,692</u>
Total operating expenses	<u>32,965,892</u>	<u>7,114,339</u>	<u>2,800,078</u>
Operating income (loss)	<u>(811,116)</u>	<u>698,425</u>	<u>144,303</u>
NONOPERATING REVENUES (EXPENSES)			
Connection fees	0	0	109,814
Interest and investment revenue	18,306	15,854	44,023
Gain (loss) on sale of assets	(10,260)	(4,170)	(980)
Reimbursement of prior year expense	0	0	0
Other nonoperating revenues	98,274	676	40,206
Intergovernmental revenues	174,312	76,220	99,055
Interest expense	<u>(556,805)</u>	<u>0</u>	<u>(91,121)</u>
Total nonoperating revenues (expenses)	<u>(276,173)</u>	<u>88,580</u>	<u>200,997</u>
Income (loss) before contributions and transfers	<u>(1,087,289)</u>	<u>787,005</u>	<u>345,300</u>
Capital contributions and grants	100,000	24,100	0
Transfers in	0	0	0
Transfers out	<u>(905,000)</u>	<u>(385,000)</u>	<u>(72,000)</u>
Change in net assets	<u>(1,892,289)</u>	<u>426,105</u>	<u>273,300</u>
Total net assets - beginning	<u>37,095,053</u>	<u>11,434,225</u>	<u>27,374,731</u>
Total net assets - ending	<u>\$ 35,202,764</u>	<u>\$ 11,860,330</u>	<u>\$ 27,648,031</u>

Enterprise Funds			Internal Service Funds
Sewer Fund	Other Enterprise Funds	Total	
\$ 4,964,873	\$ 2,093,213	\$ 49,388,339	\$ 4,918,043
68,759	91,460	741,887	45,793
<u>5,033,632</u>	<u>2,184,673</u>	<u>50,130,226</u>	<u>4,963,836</u>
2,371,425	0	7,273,442	0
0	42,458	42,458	3,406,550
928,090	1,995,496	2,923,586	0
0	0	31,620,733	0
510,150	356,210	4,578,052	424,459
0	0	0	620,365
0	0	0	409,639
<u>1,363,777</u>	<u>13,416</u>	<u>4,023,060</u>	<u>529,625</u>
<u>5,173,442</u>	<u>2,407,580</u>	<u>50,461,331</u>	<u>5,390,638</u>
(139,810)	(222,907)	(331,105)	(426,802)
51,317	0	161,131	0
10,276	6,162	94,621	48,447
0	0	(15,410)	18,280
0	0	0	195,680
15,233	0	154,389	90,925
379,655	88,922	818,164	139,808
(104,958)	0	(752,884)	0
<u>351,523</u>	<u>95,084</u>	<u>460,011</u>	<u>493,140</u>
211,713	(127,823)	128,906	66,338
771,383	0	895,483	0
0	0	0	79,000
0	0	(1,362,000)	(325,000)
983,096	(127,823)	(337,611)	(179,662)
<u>21,070,518</u>	<u>1,611,018</u>	<u>98,585,545</u>	<u>14,414,489</u>
<u>\$ 22,053,614</u>	<u>\$ 1,483,195</u>	<u>\$ 98,247,934</u>	<u>\$ 14,234,827</u>

Some amounts reported for business-type activities
in the statement of activities are different because the
net revenue (expense) of certain internal service funds
is reported with business-type activities (602,461)

Change in net assets of business-type
activities (\$ 940,072)

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF CHAMBERSBURG
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2011

	Enterprise Funds		
	Electric Fund	Gas Fund	Water Fund
Cash flows from operating activities:			
Receipts from customers/interfund services provided	\$ 32,398,596	\$ 8,043,299	\$ 2,968,968
Payments to suppliers	(28,258,117)	(6,207,983)	(1,015,678)
Payments to and on behalf of employees	(2,223,931)	(922,340)	(1,258,008)
Net cash provided (used) by operating activities	<u>1,916,548</u>	<u>912,976</u>	<u>695,282</u>
Cash flows from capital and related financing activities:			
Grants and reimbursements received	0	0	0
Proceeds from capital debt	0	0	0
Purchase of capital assets	(634,814)	(371,326)	(648,698)
Proceeds from sale of assets	0	0	0
Proceeds from tap fees	0	0	109,814
Principal paid on capital debt	(938,400)	0	(204,834)
Interest and fiscal charges paid on capital debt	(531,058)	0	(91,672)
Net cash provided (used) by capital and related financing activities	<u>(2,104,272)</u>	<u>(371,326)</u>	<u>(835,390)</u>
Cash flows from non-capital financing activities:			
Transfer from other funds	0	0	0
Transfer to other funds	(905,000)	(385,000)	(72,000)
Refund received for health insurance	0	0	0
Grants received	<u>174,312</u>	<u>76,220</u>	<u>99,055</u>
Net cash provided (used) by non-capital financing activities	<u>(730,688)</u>	<u>(308,780)</u>	<u>27,055</u>
Cash flows from investing activities:			
Interest and dividends received	<u>25,000</u>	<u>17,771</u>	<u>55,816</u>
Net cash provided (used) by investing activities	<u>25,000</u>	<u>17,771</u>	<u>55,816</u>
Net increase (decrease) in cash and cash equivalents	<u>(893,412)</u>	<u>250,641</u>	<u>(57,237)</u>
Cash and cash equivalents - beginning of the year	<u>4,301,833</u>	<u>2,134,613</u>	<u>10,312,735</u>
Cash and cash equivalents - end of the year	<u><u>\$ 3,408,421</u></u>	<u><u>\$ 2,385,254</u></u>	<u><u>\$ 10,255,498</u></u>
Reconciliation of income from operations to net cash provided (used) by operating activities			
Operating income (loss)	(\$ 811,116)	\$ 698,425	\$ 144,303
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization expense	1,920,877	293,298	431,692
Miscellaneous nonoperating income	98,274	676	40,206
(Increase) decrease in:			
Accounts receivable	128,431	216,911	(15,619)
Inventories	(116,061)	(148,824)	11,922
Prepaid expenses	712	(48)	(35)
Increase (decrease) in:			
Accounts payable and accrued expenses	664,773	(160,410)	82,813
Unearned revenue	<u>30,658</u>	<u>12,948</u>	<u>0</u>
Net cash provided (used) by operating activities	<u><u>\$ 1,916,548</u></u>	<u><u>\$ 912,976</u></u>	<u><u>\$ 695,282</u></u>
Non-cash investing, capital and non-capital financing activities			
Donated assets from developers	<u><u>\$ 100,000</u></u>	<u><u>\$ 24,100</u></u>	<u><u>\$ 0</u></u>

Enterprise Funds			Internal Service Funds
Sewer Fund	Other Enterprise Funds	Total	
\$ 4,969,365	\$ 2,141,209	\$ 50,521,437	\$ 5,014,921
(2,496,664)	(1,434,539)	(39,412,981)	(2,098,000)
(1,303,510)	(984,219)	(6,692,008)	(2,392,733)
<u>1,169,191</u>	<u>(277,549)</u>	<u>4,416,448</u>	<u>524,188</u>
573,157	0	573,157	0
0	0	0	0
(1,213,163)	(12,764)	(2,880,765)	(375,666)
0	0	0	18,280
51,317	0	161,131	0
(501,600)	0	(1,644,834)	0
(81,372)	0	(704,102)	0
<u>(1,171,661)</u>	<u>(12,764)</u>	<u>(4,495,413)</u>	<u>(357,386)</u>
0	0	0	79,000
0	0	(1,362,000)	(325,000)
0	0	0	195,680
<u>379,655</u>	<u>88,922</u>	<u>818,164</u>	<u>139,808</u>
<u>379,655</u>	<u>88,922</u>	<u>(543,836)</u>	<u>89,488</u>
11,435	8,178	118,200	60,331
<u>11,435</u>	<u>8,178</u>	<u>118,200</u>	<u>60,331</u>
<u>388,620</u>	<u>(193,213)</u>	<u>(504,601)</u>	<u>316,621</u>
<u>1,713,935</u>	<u>1,424,468</u>	<u>19,887,584</u>	<u>11,052,896</u>
<u>\$ 2,102,555</u>	<u>\$ 1,231,255</u>	<u>\$ 19,382,983</u>	<u>\$ 11,369,517</u>
(\$ 139,810)	(\$ 222,907)	(\$ 331,105)	(\$ 426,802)
1,363,777	13,416	4,023,060	529,625
15,233	0	154,389	90,925
(79,500)	(43,464)	206,759	(39,840)
(7,179)	0	(260,142)	(174,750)
(34)	(29)	566	(103)
16,704	(24,565)	579,315	545,133
0	0	43,606	0
<u>\$ 1,169,191</u>	<u>(\$ 277,549)</u>	<u>\$ 4,416,448</u>	<u>\$ 524,188</u>
<u>\$ 7,149</u>	<u>\$ 0</u>	<u>\$ 131,249</u>	<u>\$ 0</u>

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF CHAMBERSBURG

STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2011

	Pension Trust Funds	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and equity in pooled cash and investments	\$ 1,119,698	\$ 42,451	\$ 853,434
Mutual funds - U.S. Securities	7,687,796	0	0
Mutual funds - Stocks	17,269,610	0	0
Mutual funds - Real estate securities	845,852	0	0
Other receivables	0	21	1,736
Total assets	<u>\$ 26,922,956</u>	<u>\$ 42,472</u>	<u>\$ 855,170</u>
LIABILITIES			
Consumer deposits	0	0	855,170
Total liabilities	<u>0</u>	<u>0</u>	<u>855,170</u>
NET ASSETS			
Held in trust for benefits and other purposes	<u>26,922,956</u>	<u>42,472</u>	<u>0</u>
Total liabilities and net assets	<u>\$ 26,922,956</u>	<u>\$ 42,472</u>	<u>\$ 855,170</u>

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF CHAMBERSBURG

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended December 31, 2011

	Pension Trust Funds	Private Purpose Trust Funds
ADDITIONS		
Contributions		
Employer	\$ 1,438,283	\$ 0
Plan member	72,308	0
Public contributions and other revenue	<u>0</u>	<u>9,169</u>
Total contributions	1,510,591	9,169
Investment income		
Net appreciation (depreciation) in fair value of investments and gain (loss) on sale of investments	(905,587)	0
Interest, dividends, and other	<u>595,895</u>	<u>56</u>
Total net investment earnings	(309,692)	56
Transfers from other funds	<u>0</u>	<u>10,000</u>
 Total additions	 <u>1,200,899</u>	 <u>19,225</u>
DEDUCTIONS		
Benefits	1,834,986	0
Administrative expenses	9,239	16,000
Miscellaneous expenses	<u>0</u>	<u>768</u>
Total deductions	<u>1,844,225</u>	<u>16,768</u>
 Change in net assets	 (643,326)	 2,457
Net assets - beginning	<u>27,566,282</u>	<u>40,015</u>
Net assets - ending	<u>\$ 26,922,956</u>	<u>\$ 42,472</u>

The Notes to Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Operations

The financial statements of the Borough of Chambersburg have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The GASB defines the criteria used to determine the composition of the reporting entity. These standards require that the reporting entity include (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and with it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for the governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation in some manner for the debt of the organization; or (c) is obligated in some manner for the debt of the organization.

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

Based upon the application of these criteria, the following component unit meets the criteria for blending and is included within the reporting entity:

The Municipal Authority of the Borough of Chambersburg (the "Authority") is governed by a Board appointed by Borough Council. The Authority had no financial activity during 2011. See Note 11 for additional information.

Fund Accounting

The Borough uses funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net assets/(deficit), revenue, and expenditures/expenses. The various funds of the primary government are grouped into the categories of governmental, proprietary, and fiduciary.

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

Governmental Funds

Governmental Funds are those through which most governmental functions of the Borough are financed. The measurement focus is on the flow of expendable resources, rather than on net earnings determination.

The Borough reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the Borough. This fund is used to account for all financial transactions except those required to be accounted for in another fund. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use.

Special Revenue Fund - Grant Programs is used to account for the majority of the grants obtained by the Borough for the governmental activities.

Additionally, the Borough reports the following non-major governmental funds:

Special Revenue Funds – These funds are used to account for proceeds of specific revenue sources used to finance specific activities as required by law or administrative regulation. The Borough has two Special Revenue Funds, the Grant Program Fund above and the following:

Liquid Fuels Fund is used to account for state liquid fuels tax revenue used primarily for building, improving, and maintaining local roads and bridges.

Capital Reserve Fund – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, where the focus of proprietary funds is on the determination of net earnings and capital maintenance. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The Borough's enterprise funds consist of:

Electric Department – Provides electric power and related services to the Borough of Chambersburg and all customers, both residential and commercial, throughout the Borough.

Gas Department – Provides natural gas and related services to the Borough of Chambersburg in addition to its residential and commercial customers throughout the Borough and within its proximity.

Water Department – Provides water and related services, including laboratory analyses, to the Borough of Chambersburg, its residents, business establishments and various customers within the proximity of the Borough.

Note 1. Summary of Significant Accounting Policies (Continued)

Proprietary Funds (Continued)

Sewer Department – Provides wastewater treatment services for the Borough of Chambersburg, its residents, commercial establishments and various customers located within the neighboring areas of Greene Township, Guilford Township, Hamilton Township and Letterkenny Township.

Sanitation Department – Provides trash and garbage removal for the Borough of Chambersburg, its residents and commercial establishments throughout the Borough.

Parking Department – Regulates and controls vehicle parking throughout the Borough of Chambersburg.

The Borough's Electric, Gas, Water, and Sewer departments are considered major enterprise funds. The Sanitation and Parking departments are considered non-major enterprise funds.

Classification of Revenues - For proprietary funds, the Borough has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- **Operating Revenues** - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) utility billings; (2) penalties and late charges; and (3) other miscellaneous sales.
- **Nonoperating Revenues** - Nonoperating revenues include activities that have the characteristics of non-exchange transactions (in which the Borough receives value without directly giving equal value in return), such as contributions and grants, and other revenues that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB No. 34, such as investment earnings. Tap fees are also considered nonoperating since they are charged based on future capacity needs of the system and are not based on an exchange-type transaction.

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented, in summary form, as part of the proprietary fund financial statements. Since the principal users of the internal services are a combination of the Borough's governmental and enterprise funds, financial statements of internal service funds are allocated based on the usage of those funds and included in the governmental and business-type column when presented at the government-wide level. The costs of these services are allocated to the appropriate functional activity.

The Borough's internal service funds consist of:

Stores Fund – The Stores Department is responsible for the purchase, storage, and disbursement of inventory which is used to support the construction and maintenance functions of the Borough utilities.

Administrative Services Fund – Administrative Services is synonymous with the Finance Department which is responsible for the complete financial, utility meter reading, and parking meter operations as well as the operation and maintenance of Borough Hall.

Motor Equipment Fund – This fund supports the activities of the Motor Equipment Department which manages a rolling stock of more than 120 vehicles.

Self-insurance Fund – This fund is used for the purpose of funding risk which the Borough does not transfer to commercial insurance carriers or insurance pools.

Engineering Fund – This fund supports the activities of the Engineering Department which is responsible for furnishing engineering, surveying, drafting, and utility location information to other departments. The department also designs and inspects public works projects.

Note 1. Summary of Significant Accounting Policies (Continued)

Proprietary Funds (Continued)

Worker's Compensation – This fund underwrites the risks to the Borough resulting from job-related injury or illness to its employees.

The major fund concept does not apply to internal service funds.

Fiduciary Fund Types

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds (Firemen's, Police, and Bargaining and Administrative Employees), investment trust funds, private-purpose trust funds (Citizen's Reward, Sister City and Project Heat), and agency funds (Payroll Clearing, Consumer Deposit).

Trust funds are used to account for assets held by the Borough under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Borough's own program. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The Borough's fiduciary funds consist of:

Police Pension Fund - This fund is used to account for the accumulation of resources for pension benefit payments to qualified public safety (police) employees.

Bargaining and Administrative Employees Pension Fund - This fund is used to account for the accumulation of resources for pension benefit payments to qualified employees of the Borough other than police or fire department employees.

Firemen's Pension Fund - This fund is used to account for the accumulation of resources for pension benefit payments to qualified Fire Department employees.

Citizen's Reward Fund - Trust fund used to hold contributions from private citizens for the purpose of rewarding police informants for their assistance in solving crime.

Sister City Fund - Trust fund used to hold money that accumulates for the specific purpose of "sister city" activities. Our sister city is Gotemba, Japan.

Project HEAT Fund - Trust fund to hold contributions from citizens for the purpose of assisting others pay their utility bills.

Payroll Clearing Fund - An account to temporarily hold every dollar expended through the payroll system. This includes net payroll, all taxes withheld, miscellaneous deductions and employers' share of Social Security/Medicare expense. Theoretically, every dollar contained within the account will eventually be paid out in net pay, taxes or other deductions.

Consumer Deposits Fund - Agency fund used to hold deposits on behalf of utility customers. Interest is earned and "tracked" for individual customers at the Borough's composite interest rate. These funds can be used to settle an outstanding account or returned to the customer whenever a "good credit history" record is attained. These funds are also returned to the customer whenever they move outside the Borough. Occasionally, some deposits and or down payments from other individuals and organizations for other purposes are deposited in this account and held until final resolution has occurred.

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the Borough as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Borough that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financials, but differs from the manner in which governmental fund financials are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Borough, and for each function or program of the Borough's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operation or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Borough, with certain limited exceptions. The comparison of direct expenses and program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Borough.

Fund Financial Statements – Fund financial statements report detailed information about the Borough. The focus of the governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The major fund concept does not apply to internal service funds which are considered proprietary funds and are presented with enterprise funds. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Borough finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus. However, agency funds have no measurement focus.

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The government-wide, proprietary, and fiduciary fund (except agency fund) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net assets (total assets less total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net assets. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state, and other grants designated for payment of specific Borough expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred revenues until earned. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund, liquid fuels fund, capital projects, grant program, and proprietary funds. All annual appropriations lapse at year end and must be reappropriated. Budgets are not revised during the year. Encumbrance accounting is utilized for internal management purposes, but not for financial reporting. The budget is prepared and approved at the departmental level. The departments presented in the Budgetary Comparison Schedules included as required supplementary information represent the legal level of budgetary control.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, demand deposits, and in accordance with GASB pronouncements, each fund's equity in the Borough's investment pool since each fund can deposit or effectively withdraw cash at any time without prior written notice or penalty. Cash and cash equivalents on the Proprietary Funds' cash flow statements are in agreement with the amounts listed on the related statement of net assets as "cash and equity in pooled cash and investments".

Note 1. Summary of Significant Accounting Policies (Continued)

Cash, Cash Equivalents and Investments (Continued)

Investments are reported at fair value based on quoted values from established markets. Managed funds related to the retirement systems not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Income, including the change in fair value, from investments held by the individual funds is recorded in the respective fund as it is earned. All other investments owned by the Borough are accounted for in pooled cash and temporary investment accounts. Income earned from this pooling of investments is allocated monthly to the respective funds based upon month end balances.

Inventories

Inventories held by the Electric, Gas, Water, Sewer, and Stores Funds, as well as fuel in the Motor Equipment Fund are priced using the moving weighted-average method. Inventories of parts held by the Motor Equipment Fund are stated at the lower of cost or market, cost being determined using the first-in/first-out (FIFO) method.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type column of the government-wide statement of net assets and in the respective fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair values as of the date received. The Borough maintains a capitalization threshold of \$ 2,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest costs incurred during the construction of capital assets is not capitalized for business-type activities and enterprise funds and expensed for governmental activities.

Infrastructure assets that have been acquired since 1980 have been recorded in accordance with GASB requirements. These consist mainly of highway improvements.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

	Governmental Activities	Business-Type Activities
Land improvements	10-20 years	10-20 years
Buildings	40-50 years	40-50 years
Machinery and equipment	8-40 years	8-40 years
Utility plant in service	20-50 years	20-50 years
Infrastructure - railroads	25 years	N/A
Infrastructure - highways	25 years	N/A
Infrastructure - other	5-50 years	N/A

Note 1. Summary of Significant Accounting Policies (Continued)

Interfund Transactions

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. Advances between funds which are not expected to be repaid are accounted for as transfers. Interfund balances and transactions are eliminated in the government-wide financial statements.

Exchange transactions, if any, between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and are shown separately in proprietary funds.

Allowance for Uncollectible Accounts

The Borough provides credit to its customers in the normal course of business. Receivables are generally due thirty days after billed. The Borough provides an allowance for uncollectible accounts equal to the estimated losses based on historical collection experience that will be incurred in the collection of all receivables.

Loans Receivable

Loans receivable on the statement of net assets (classified in "other receivables") represent loans made to low income residents under a revolving loan program funded by the Pennsylvania Department of Community and Economic Development (DCED) and the Federal HOME Program, as well as a loan agreement with the Chambersburg Area Development Corporation for the renovation of the Heritage Center funded by DCED.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activity columns in the statement of net assets. This same treatment also applies to proprietary fund financial statements.

Bond premium and discounts, loss on refinancing, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount and loss on refinancing. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Note 1. Summary of Significant Accounting Policies (Continued)**Net Assets**

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt: This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt and accounts payable and retainage payable that are attributable to the acquisition, construction or improvement of these assets reduce this category. The following details *Invested in Capital Assets, Net of Related Debt*:

Government-Wide Activity

	Governmental Activities	Business- Type Activities
Capital assets	\$ 25,294,014	\$ 96,037,222
Bonds and notes payable	0	(18,733,464)
Accounts and retainage payable related to capital assets	(18,162)	(810,057)
Invested in capital assets, net of related debt	<u>\$ 25,275,852</u>	<u>\$ 76,493,701</u>

Proprietary Funds

	Electric Fund	Gas Fund	Water Fund	Sewer Fund	Sanitation Fund	Parking Fund
Capital assets	\$ 44,779,721	\$ 7,916,764	\$ 19,829,660	\$ 21,459,693	\$ 48,780	\$ 131,271
Bonds and notes payable	(13,892,679)	0	(2,640,542)	(2,200,243)	0	0
Accounts and retainage payable related to capital assets	(198,725)	(3,397)	(74,543)	(533,392)	0	0
Invested in capital assets, net of related debt	<u>\$ 30,688,317</u>	<u>\$ 7,913,367</u>	<u>\$ 17,114,575</u>	<u>\$ 18,726,058</u>	<u>\$ 48,780</u>	<u>\$ 131,271</u>

Internal Service Funds

	Stores Fund	Motor Equipment Fund	Engineering Fund
Capital assets	\$ 2,692	\$ 2,909,819	\$ 4,608
Bonds and notes payable	0	0	0
Accounts and retainage payable related to capital assets	0	0	0
Invested in capital assets, net of related debt	<u>\$ 2,692</u>	<u>\$ 2,909,819</u>	<u>\$ 4,608</u>

Restricted Net Assets: This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The following details restricted net assets:

Restricted for future capital improvements by borough code	\$ 3,095,416
Restricted for future grant expenditures	442,615
Restricted for future highway improvements/projects	<u>231,730</u>
	<u>\$ 3,769,761</u>

Unrestricted Net Assets: This category represents the net assets of the Borough, which are not restricted for any project or other purpose. However, these funds may be internally designated for specific projects or purposes in the fund financial statements.

When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first, then unrestricted resources as they are needed.

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Balance – Governmental Funds

In July 2010, the GASB issued Statement No.54, *Fund Balance and Governmental Fund Type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The financial statements incorporate the changes required by Statement No. 54 as detailed below.

Governmental funds classify fund balance based on the relative strength of the spending constraints placed on the purpose for which resources can be used. The classifications are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. This classification includes items such as prepaid amounts, inventories, and the long term portion of loans and notes receivable. This also includes the corpus (or principal) of permanent funds.

Restricted: This classification includes amounts where the constraints placed on the use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, change or mandate payment and includes a legally enforceable requirement on the use of these funds.

Committed: This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Borough's highest level of decision-making authority. This formal action is in the form of a resolution which is made by the Borough Council. Once an amount is committed, it cannot be used for any other purpose unless changed by the same type of formal action used to initially constrain the funds.

Assigned: This classification includes spendable amounts that are reported in governmental funds *other than in the General Fund*, that are neither restricted nor committed, and amounts in the General Fund that are intended to be used for a specific purpose. The intent of an assigned fund balance should be expressed by the Borough Council. The assignment of fund balance cannot result in a negative unassigned fund balance.

Unassigned: This classification represents the portion of a spendable fund balance that has not been categorized as restricted, committed, or assigned. The general fund is the only fund which would include a positive unassigned fund balance as all other fund types must categorize amounts within the other classifications. A negative unassigned fund balance may occur in any fund when there is an over expenditure of restricted or committed fund balance. In this case, any assigned fund balance (and unassigned fund balance in the general fund) would be eliminated prior to reporting a negative unassigned fund balance.

Minimum Fund Balance

The Borough's policy is to maintain a minimum of 5% of the total budgeted expenditures (including interfund transfers out) as the residual unassigned fund balance at year end. Three methods that can be employed in increasing fund balance if it were to fall below the minimum threshold are: 1) increase general fund revenues via tax or other revenue increase (charges for service), 2) decreasing general fund expenditures, or 3) increasing transfers from other Borough funds.

Order of spending policy

The Borough's policy for spending order when fund balance resources are available for a specific purpose in multiple classifications is to use restricted resources first and then apply unrestricted resources in the following order: unassigned, assigned, and committed.

Note 1. Summary of Significant Accounting Policies (Continued)

Pension Trust Funds

The GASB requires a statement of plan net assets and a statement of changes in plan net assets. These are shown as part of the fiduciary statements. It also requires plan investments to be recorded at their fair value and establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets, and note disclosures.

Deferred Compensation Plan

The Borough has established a deferred compensation plan under Internal Revenue Code Section 457 which covers all employees. All assets and income of the plan are held for the exclusive benefit of the plan's participants and their beneficiaries. In accordance with the provisions of the GASB, the assets and liabilities of the plan are not reported on the financial statements of the Borough.

Compensated Absences

Liability for compensated absences is accounted for in accordance with the provisions of the GASB, which require entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

Under terms of the Borough's employment agreements, employees are granted vacation and sick leave in varying amounts. Vacation days not used by December 31 are lost unless otherwise approved, or are retained if employed for at least 20 years by the Borough. All employees (including uniformed police) are permitted to accumulate unlimited sick days. Upon retirement from the Borough, employees with a certain number of years of continuous service are reimbursed as follows for their accumulated sick leave:

⇒ **Administrative and Bargaining Unit** - 1% per year of service of unused sick leave up to a maximum of 90 days pay for employees with at least five (5) years of continuous employment.

⇒ **Police** - any sick leave accumulated in excess of 100 days at \$ 30-\$ 40 per day.

⇒ **Fire** - 15% to 27.5% of accumulated sick leave, up to a maximum of 1,012.8 hours.

Other Postemployment Benefits Other Than Pension

The Borough provides post retirement benefits by permitting retired employees the ability to participate in the employee health plan. Even though the retirees pay 102% of the Borough's blended premium rate, the Borough is still providing an implicit rate subsidy to its retirees. These benefits are financed on a pay-as-you-go basis. The Borough provides no other post employment benefits for Borough employees.

Statement of Cash Flows - Proprietary Funds

Because the Borough accounts for all deposits and investments through a Central Treasury function, all investments are considered to be cash equivalents for purposes of the statement of cash flows.

Deficit Net Assets

The Administrative Services Fund and Worker's Compensation Fund (internal service funds) have deficit net asset balances of \$ 306,087 and \$ 867,465, respectively, at December 31, 2011.

Note 2. Cash and Cash Equivalents

The Borough is authorized to invest in the following:

- U.S. Treasury Bills.
- Short-term obligations of the U.S. Government or its agencies.
- Deposits in savings accounts or certificates of deposit insured by the FDIC or NCUSIF to the extent that such accounts are so insured and for any amounts above the insured maximum, provided that approved collateral as provided by law shall be pledged by the depository.
- Obligations of the U.S. Government, Commonwealth of Pennsylvania, or any agency, instrumentality, or political subdivision thereof, backed by the full faith and credit of the applicable government.
- Pennsylvania Local Government Investment Trust (PLGIT) Funds.
- Pennsylvania Treasury's INVEST program which is similar in concept to money market funds.

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Borough's deposits may not be returned to it. The Borough does not have a written policy for custodial credit risk. As of December 31, 2011, the Borough has a bank balance of \$ 3,347,680. Of this balance, \$ 741,927 is covered by FDIC insurance and the remaining balance of \$ 2,605,754 is collateralized by securities held by the pledging financial institution.

Investments

As of December 31, 2011, the Borough's investments were as follows:

Investment Type	Fair Value	Credit Quality
		Rating
PLGIT/PLGIT PLUS	\$ 15,416,047	AAAm
PLGIT - CDs	17,828,292	AAAm

Credit Risk – Investments

The Borough has no investment policy that would limit its investment choices to certain credit ratings.

Included in cash and cash equivalents on the statement of net assets are pooled investments in the Pennsylvania Local Government (PLGIT) of \$ 15,416,047. These funds are basically mutual funds that consist of short-term money market instruments and seek to maintain a constant net asset value of \$ 1 per share.

Interest Rate Risk – Investments

The following investments are subject to interest rate risk:

	Total Fair Value	Investment Maturities (in Years)	
		Less Than 1	1-5
PLGIT - CDs	\$ 17,828,292	\$ 11,370,782	\$ 6,457,510

The Borough does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Note 2. Cash and Cash Equivalents (Continued)

Municipal Pension Plans

Investments held by the trustees of the pension plans are as follows:

	Total Fair Value	Investment Maturities
Investment		
Money Market Funds	\$ 2,162,567	N/A
Open End Mutual Funds	<u>24,760,389</u>	N/A
Total	<u>\$ 26,922,956</u>	

Credit Risk

The Borough does not have a formal policy pertaining to credit risk. None of the investments have a credit quality rating.

Foreign Securities and Currencies Risk

Foreign securities prices may decline or fluctuate because of economic or political actions of foreign governments or the possibility that foreign currency will fluctuate in value against the U. S. dollar. Included in the \$ 24,760,389 of Open End Mutual Funds shown above are International Mutual Funds with a fair value of \$ 3,602,773. The International Mutual Funds may be subject to foreign securities and currencies risk.

Note 3. Taxes and Other Receivables

Property taxes are levied on March 1 for the tax year. Taxes are payable at a 2% discount if paid before May 1 and at a 10% penalty if paid after the due date of June 30. Outstanding real estate taxes are turned over to a delinquent tax collector on January 15 of each year. After proper notification is made to a property owner, a lien is filed on or about May 1 and must remain in effect for a period of two years before a tax sale may occur.

Taxes are recorded in the funds as revenue by the Borough when received from the tax collector, and accruals are recorded at year-end for taxes expected to be received within 60 days of December 31 in accordance with the modified accrual basis of accounting. The Borough has not established an allowance for uncollectible taxes since experience has demonstrated that substantially all taxes are ultimately collectible.

Receivables as of December 31, 2011 for the Borough's governmental activities, including the applicable allowances for uncollectible accounts are as follows:

Real estate	\$ 351,769
Earned income tax	611,152
Real estate transfer tax	24,699
Ambulance billings	272,892
Loans receivable	390,203
Grants receivable	68,558
Other	175,735
Allowance for uncollectible accounts	(<u>181,637</u>)
Receivables - full accrual basis	1,713,371
Taxes not receivable within 60 days and allocation of internal service funds not recorded in fund financial statements	(<u>122,155</u>)
Receivables - modified accrual basis	<u>\$ 1,591,216</u>

Note 4. Capital Assets

Capital asset activity for the Borough consists of the following as of and for the year ended December 31, 2011:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Cost:				
Capital assets not being depreciated				
Land	\$ 403,329	\$ 0	\$ 0	\$ 403,329
Construction-in-progress	1,073,404	70,970	(906,008)	238,366
Capital assets				
Land improvements	3,022,215	399,493	0	3,421,708
Buildings	4,580,683	173,332	0	4,754,015
Machinery and equipment	5,330,081	239,442	(214,533)	5,354,990
Infrastructure - roads	16,546,652	0	0	16,546,652
Infrastructure - railroads	2,478,702	197,430	0	2,676,132
Infrastructure - other	5,723,821	491,129	0	6,214,950
Total cost	<u>39,158,887</u>	<u>1,571,796</u>	<u>(1,120,541)</u>	<u>39,610,142</u>
Less accumulated depreciation:				
Land improvements	(1,137,829)	(131,527)	0	(1,269,356)
Buildings	(3,125,482)	(109,588)	0	(3,235,070)
Machinery and equipment	(3,246,035)	(384,719)	214,127	(3,416,627)
Infrastructure - railroads	(1,338,498)	(99,148)	0	(1,437,646)
Infrastructure - highways	(3,291,612)	(368,007)	0	(3,659,619)
Infrastructure - other	(909,954)	(387,856)	0	(1,297,810)
Total accumulated depreciation	<u>(13,049,410)</u>	<u>(1,480,845)</u>	<u>214,127</u>	<u>(14,316,128)</u>
Capital assets, net	<u>\$ 26,109,477</u>	<u>\$ 90,951</u>	<u>(\$ 906,414)</u>	<u>\$ 25,294,014</u>
Business-Type Activities:				
Cost:				
Capital assets not being depreciated				
Land	\$ 835,719	\$ 0	\$ 0	\$ 835,719
Construction-in-progress	3,635,053	2,543,584	(731,024)	5,447,613
Capital assets				
Utility plant in service	148,818,369	1,436,533	(145,439)	150,109,463
Land improvements	81,939	0	0	81,939
Buildings	578,691	0	(83)	578,608
Machinery and equipment	6,411,853	535,733	(265,654)	6,681,932
Total cost	<u>160,361,624</u>	<u>4,515,850</u>	<u>(1,142,200)</u>	<u>163,735,274</u>
Less accumulated depreciation:				
Utility plant in service	(59,221,263)	(3,903,404)	130,031	(62,994,636)
Land improvements	(54,470)	(1,399)	0	(55,869)
Buildings	(333,365)	(10,220)	0	(343,585)
Machinery and equipment	(4,093,945)	(475,801)	265,784	(4,303,962)
Total accumulated depreciation	<u>(63,703,043)</u>	<u>(4,390,824)</u>	<u>395,815</u>	<u>(67,698,052)</u>
Capital assets, net	<u>\$ 96,658,581</u>	<u>\$ 125,026</u>	<u>(\$ 746,385)</u>	<u>\$ 96,037,222</u>

Note 4. Capital Assets (Continued)

See Note 10 for project commitments.

Depreciation expense for the year ended December 31, 2011 was charged to expense functions, including the internal service fund allocations, as follows:

	Governmental Activities	Business-Type Activities
General government	\$ 295,520	\$ 0
Public Safety	272,563	0
Public Services	737,222	0
Parks and recreation	175,540	0
Electric	0	2,069,195
Gas	0	355,652
Water	0	479,779
Sewer	0	1,399,542
Sanitation	0	74,309
Parking	0	12,347
	<u>\$ 1,480,845</u>	<u>\$ 4,390,824</u>

Internal Service Fund Allocation

The capital asset information shown above for governmental activities and business-type activities includes the allocation of capital assets, accumulated depreciation and current year depreciation expense of internal services funds. This allocation is based on the applicable usage of each internal service fund by the governmental activities (36%) and the business-type activities (64%). These allocations were changed in 2011, compared to 2010, thus the beginning balances do not match the previous year financial statements due to reallocating the beginning balance of the internal service funds using the new allocations.

Note 5. Long-term Liabilities

The changes in long-term liabilities during the year ended December 31, 2011 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Unamortized Bond Loss/Discount	Current Portion	Long-term Portion
Governmental Activities:							
Liability for self-insured losses	\$ 200,046	\$ 493,049	(\$ 325,369)	\$ 367,726	\$ 0	\$ 147,439	\$ 220,287
Compensated Absences	636,473	447,683	(478,745)	605,411	0	400,366	205,045
Total long-term liabilities	<u>\$ 836,519</u>	<u>\$ 940,732</u>	<u>(\$ 804,114)</u>	<u>\$ 973,137</u>	<u>\$ 0</u>	<u>\$ 547,805</u>	<u>\$ 425,332</u>
Business-Type Activities							
Bonds and notes payable							
(C) Sewer 2009 GO Bond	2,866,400	0	(501,600)	2,364,800	(164,557)	489,067	1,711,176
(B) Electric 2007 GO Bond	9,900,000	0	(40,000)	9,860,000	(159,811)	25,130	9,675,059
(C) Electric 2009 GO Bond	5,133,600	0	(898,400)	4,235,200	(42,710)	919,877	3,272,613
(A) Water PennVest Loan	2,845,376	0	(204,834)	2,640,542	0	211,762	2,428,780
Subtotal - bonds and notes	<u>20,745,376</u>	<u>0</u>	<u>(1,644,834)</u>	<u>19,100,542</u>	<u>(367,078)</u>	<u>1,645,836</u>	<u>17,087,628</u>
Liability for self-insured losses	416,051	824,173	(582,214)	658,010	0	263,828	394,182
Compensated absences	815,306	506,274	(551,734)	769,846	0	362,349	407,497
Total long-term liabilities	<u>\$ 21,976,733</u>	<u>\$ 1,330,447</u>	<u>(\$ 2,778,782)</u>	<u>\$ 20,528,398</u>	<u>(\$ 367,078)</u>	<u>\$ 2,272,013</u>	<u>\$ 17,889,307</u>

The General Fund and Internal Service Funds have been used in prior years to liquidate the liability for compensated absences in the Governmental Activities. In addition to the long-term liabilities listed above, the Borough has a net OPEB obligation. See Note 8 for additional details. The General Fund and the Internal Service Fund has been used in prior years to liquidate the net other post employment benefit obligation in the Governmental Activities.

Note 5. Long-term Liabilities (Continued)

Internal Service Fund Allocation

The liability for self-insured losses and compensated absences information shown above for governmental activities and business-type activities includes the allocation of self-insured losses and use of compensated absences of internal services funds. This allocation is based on the applicable usage of each internal service fund by the governmental activities (36%) and the business-type activities (64%). These allocations were changed in 2011, compared to 2010, thus the beginning balances do not match the previous year financial statements due to reallocating the beginning balance of the internal service funds using the new allocations.

- (A) Pennvest Loan – On July 27, 2001, the Borough entered into a loan agreement with the Pennsylvania Infrastructure Investment Authority for \$ 4,400,000 to be used to partially finance the construction of a water system in the Borough, and Greene and Guilford Townships. Interest rates range from 2.501% to 3.331%. Principal and interest payments are payable monthly, are based on the full amount of the loan and are due through October 2024. The future principal and interest payments shown below are based on this amount.
- (B) General Obligation Bonds – Series of 2007 – On June 1, 2007, the Borough issued General Obligation Bonds in the principal amount of \$ 10,000,000 to be used for a partial refunding of the General Obligation Bonds, Series of 2002 and 2003 and the costs of issuing the Bonds. Annual installments of the debt are to be paid from the Electric Fund vary from \$ 30,000 to \$ 1,475,000 and are due through September 1, 2022. Interest rates vary from 3.60% to 4.00%. Interest is payable every March 1 and September 1.
- (C) General Obligation Bonds – Series of 2009 – On March 1, 2009, the Borough issued General Obligation Bonds in the principal amount of \$ 10,000,000 to be used for a full refunding of the General Obligation Bonds, Series of 2002 and 2003, a partial refunding of the General Obligation Bonds, Series of 2004 and the costs of issuing the Bonds. Annual installments of the debt are to be paid from the Electric and Sewer Funds, which vary from \$ 510,000 to \$ 1,530,000 and are due through September 1, 2017. Interest rates vary from 2.50% to 3.00%. Interest is payable every March 1 and September 1.

The following is a schedule by years and in the aggregate of future minimum bond and note principal and interest payments required at December 31, 2011:

	Electric				Sewer		Water		Total
	Series of 2007		Series of 2009		Series of 2009		PennVest Loan		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2012	\$ 40,000	\$ 383,935	\$ 927,300	\$ 118,740	\$ 517,700	\$ 66,315	\$ 211,762	\$ 84,743	\$ 2,350,495
2013	40,000	382,475	952,900	90,940	532,100	50,765	218,925	77,580	2,345,685
2014	45,000	381,015	981,800	62,340	548,200	34,815	226,329	70,176	2,349,675
2015	480,000	379,350	731,500	37,800	408,500	21,105	233,985	62,520	2,354,760
2016	1,180,000	361,590	314,400	18,780	175,600	10,485	241,899	54,606	2,357,360
2017 - 2021	6,600,000	1,097,205	327,300	9,820	182,700	5,480	1,313,727	144,090	9,680,322
2022 - 2026	1,475,000	59,000	0	0	0	0	193,915	2,417	1,730,332
	\$ 9,860,000	\$ 3,044,570	\$ 4,235,200	\$ 338,420	\$ 2,364,800	\$ 188,965	\$ 2,640,542	\$ 496,132	\$ 23,168,629

Subsequent Event

On May 29, 2012, the Borough issued General Obligation Bonds in the principal amount of \$ 9,785,000 to be used to currently refund a portion of the Borough's outstanding General Obligation Bonds, Series of 2007 and to pay the costs of issuing and insuring the bonds.

Note 6. Interfund Activity

Interfund transfers consisted of the following during 2011:

	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ 2,577,000	\$ 309,272
Special Revenue Grant Programs	29,334	5,444
Nonmajor Governmental Funds:		
Special Revenue Liquid Fuels	0	1,000,000
Capital Reserve	330,716	24,334
Major Proprietary Funds:		
Electric	0	905,000
Gas	0	385,000
Water	0	72,000
Internal Service Funds:		
Motor Equipment	0	56,000
Self Insurance	0	155,000
Engineering	0	25,000
Worker's Compensation	79,000	0
Administrative services	0	89,000
Fiduciary Funds:		
Project Heat	10,000	0
	<u>\$ 3,026,050</u>	<u>\$ 3,026,050</u>

Transfers were made to help finance operations of the general or other funds. Transfers were also made during the current year to establish reserves for various future capital improvements. All transfers are considered routine.

Note 7. Pension Plans***Plan Description***

The Borough sponsors three single-employer defined benefit retirement plans which cover Bargaining and Administrative Employees, Police Officers and Paid Firemen. Plan provisions are established by municipal ordinance with the authority for municipal contributions required by Act 205 of the Commonwealth.

All regular full-time and certain part-time employees are eligible to participate in the plans. Benefits vest after twelve years of service for Bargaining and Administrative Employees, Paid Firemen and Police Officers. Bargaining and Administrative Employees are eligible for normal retirement after attaining age sixty-five. Eligibility for normal retirement under the Police Officers' and Paid Firemen's plans is attained at age fifty and completion of twenty-five years of service. Benefits under the Bargaining and Administrative plan are based on 1.5% of average monthly pay times the number of years of service not to exceed thirty-five years. Average monthly pay is based on the three years of highest pay out of the last five years of employment. Benefits under the Police Officers' and Paid Firemen's pensions are based on 50% of average monthly pay during the last thirty-six months and the last sixty months, respectively. The Bargaining and Administrative Plan and the Police Officers' Plan also include a disability benefit and survivor benefits.

The Bargaining and Administrative Employees' and the Police Officers' plans are generally noncontributory. The Paid Fireman's plan requires employee contributions of 5% as of January 1, 2011. The Borough is required to contribute the remaining amounts necessary to fund the plans, using the actuarial basis specified by the plan.

Note 7. Pension Plans (Continued)

At January 1, 2011, the date of the most recent actuarial valuation, the participation in each plan is as follows:

	General Employees	Police	Firemen
Participants:			
Retirees and beneficiaries	84	15	16
Vested former members	10	3	0
Active employees	144	33	23

Summary of Significant Accounting Policies

The plans' financial statements are prepared using the accrual basis of accounting. Employer contributions to each plan are recognized when due as required by Act 205 of the Commonwealth. Benefits and refunds are recognized when due and payable in accordance with the terms of the appropriate plan.

Investments are reported at fair value. Short term investments are reported at cost, which approximates fair value. Fair value is determined by quoted market price.

At December 31, 2011, there were no individual investments in excess of 5% of plan net assets. In addition, the plans did not have any investment transactions with related parties during the year.

There is no separate, audited GAAP-basis postemployment benefit plan report for the defined benefit plans.

Contributions and Funding Policy

Act 205 of the Commonwealth requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation (MMO). The MMO calculation is based upon the biennial actuarial valuation also required by Act 205. Employees are not required to contribute under Act 205; such contributions are subject to collective bargaining. The Commonwealth allocates foreign fire and casualty premiums to assist in pension funding. Any financial requirement above the Commonwealth allocation must be funded by the Borough.

Administrative costs, including investment services, custodial trustee and actuarial services are charged to the appropriate plan and funded from investment earnings.

Note 7. Pension Plans (Continued)***Annual Pension Cost and Net Pension Obligations***

The Municipality's annual pension cost and related information for each plan follows:

Three Year Trend Information

Year Ended	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
<u>General</u>			
12/31/11	648,162	100%	0
12/31/10	472,936	100%	0
12/31/09	454,028	100%	0
<u>Police</u>			
12/31/11	474,748	100%	0
12/31/10	490,641	100%	0
12/31/09	466,941	100%	0
<u>Firemen</u>			
12/31/11	204,343	100%	0
12/31/10	116,340	100%	0
12/31/09	124,682	100%	0

Actuarial Methods and Assumptions

	General Employees	Police	Firemen
Actuarial valuation date	01/01/11	01/01/11	01/01/11
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Closed	Level Dollar Closed
Remaining amortization period	17 years	14 years	15 years
Asset valuation method	Artificial Investment Return of 7%	Artificial Investment Return of 7%	Artificial Investment Return of 7%
Actuarial assumptions:			
Investment rate of return	8%	8%	8%
Projected salary increases	5%	5%	5%
Cost-of-living adjustments	N/A	4%	4%
Inflation Rate	4%	4%	4%

Funded Status and Funding Progress

The following is funded status information for each plan as of January 1, 2011, the most recent actuarial valuation date:

	Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Overfunded) Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
General	01/01/11	17,085,584	20,391,819	3,306,235	83.79%	7,587,865	43.57%
Police	01/01/11	9,081,804	10,583,842	1,502,038	85.81%	1,918,058	78.31%
Firemen	01/01/11	3,946,197	5,221,325	1,275,128	75.58%	1,330,676	95.83%

Note 7. Pension Plans (Continued)

The schedules of funding progress presented as required supplementary information (RSI) following the notes to the financial statements present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

Financial Statements

The following are financial statements as of December 31, 2011 for the individual pension plans maintained by the Borough:

	Firemen's Pension Fund	Police Pension Fund	Bargaining and Administrative Employees Pension Fund	Total Pension Trust Funds
ASSETS				
Cash and cash equivalents	\$ 168,750	\$ 349,198	\$ 601,750	\$ 1,119,698
Mutual funds - U.S. Securities	1,018,864	2,363,309	4,305,623	7,687,796
Mutual funds - Stocks	2,291,790	5,294,824	9,682,996	17,269,610
Mutual funds - Real estate securities	108,973	267,640	469,239	845,852
Total assets	<u>\$ 3,588,377</u>	<u>\$ 8,274,971</u>	<u>\$ 15,059,608</u>	<u>\$ 26,922,956</u>
NET ASSETS				
Held in trust for benefits and other purposes	<u>\$ 3,588,377</u>	<u>\$ 8,274,971</u>	<u>\$ 15,059,608</u>	<u>\$ 26,922,956</u>
ADDITIONS				
Contributions				
Employer	\$ 204,343	\$ 474,748	\$ 759,192	\$ 1,438,283
Plan member	72,308	0	0	72,308
Total contributions	<u>276,651</u>	<u>474,748</u>	<u>759,192</u>	<u>1,510,591</u>
Investment income:				
Net appreciation (depreciation) in fair value of investments and gains (loss) on sale of investments	(121,722)	(265,123)	(518,742)	(905,587)
Interest, dividends and other	77,784	183,539	334,572	595,895
Total net investment income/(loss)	<u>(43,938)</u>	<u>(81,584)</u>	<u>(184,170)</u>	<u>(309,692)</u>
Total additions	<u>232,713</u>	<u>393,164</u>	<u>575,022</u>	<u>1,200,899</u>
DEDUCTIONS				
Benefits	231,341	489,212	1,114,433	1,834,986
Administrative expenses	1,367	2,227	5,645	9,239
Total deductions	<u>232,708</u>	<u>491,439</u>	<u>1,120,078</u>	<u>1,844,225</u>
Change in net assets	5	(98,275)	(545,056)	(643,326)
Net assets - beginning	<u>3,588,372</u>	<u>8,373,246</u>	<u>15,604,664</u>	<u>27,566,282</u>
Net assets - ending	<u>\$ 3,588,377</u>	<u>\$ 8,274,971</u>	<u>\$ 15,059,608</u>	<u>\$ 26,922,956</u>

Note 8. Postemployment Healthcare Plan

Plan Description

The Borough has a healthcare plan for retired employees, which is a single employer defined benefit healthcare plan administered by the Borough. The plan provides medical, prescription drug, and vision coverage for both the retiree and spouse. Retirees opting to participate are asked to pay a premium that is less than the Borough's actual cost to provide health care coverage to retirees. The premium amount retirees pay is a blended rate for covering both active and retired Plan members and amounts to 102% of the Borough's current blended premium rate. The fact that the blended rate that the retirees pay is less than the actual cost of covering retired members and their beneficiaries results in what is known as an "implicit rate subsidy" by the Borough, which gives rise to the other postemployment benefit (OPEB).

Because the Plan consists solely of the Borough's decision to provide OPEB through the payment of the implied subsidy by extending medical benefits to retirees at the above mentioned blended rate, no stand-alone financial report is available. The Plan is not included in the financial report of another entity. The coverage shall discontinue if the retiree obtains employment where medical coverage is provided, the retiree's spouse insurance coverage covers the retiree, or the retiree qualifies for Medicare coverage.

Funding Policy

The Borough funds Plan liabilities on a "pay-as-you-go" basis, and has not established an OPEB trust fund to accumulate assets to fund Plan obligations. The Borough has no statutory or contractual obligation to fund the Plan and only does so at the Borough's discretion. The Borough funds the implicit rate subsidy through the payment of health insurance premiums. For fiscal year 2011, the Borough contributed \$ 32,960 in the form of additional premiums for active employees based on implicit rates for retired employees to the plan. Plan members receiving benefits also contributed \$ 34,655, or approximately 102% of the total premiums.

Annual OPEB Cost and Net OPEB Obligation

The Borough's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Borough's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Borough's net OPEB obligation to the plan:

Annual required contribution (ARC)	\$ 227,541
Estimated interest on Net OPEB obligation	23,023
Estimated adjustment to ARC	(31,409)
Annual OPEB Cost	219,156
Employer contributions made	(32,960)
Increase in net OPEB obligation	186,196
Net OPEB obligation – beginning of the year	511,610
Net OPEB obligation – end of the year	<u>\$ 697,806</u>

Note 8. Postemployment Healthcare Plan (Continued)

The Borough's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009-2011 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/11	\$ 219,156	15%	\$ 697,806
12/31/10	\$ 221,816	27%	\$ 511,611
12/31/09	\$ 240,938	32%	\$ 349,282

Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the plan had the following funding status and progress:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/10	\$ 0	\$ 674,215	\$ 674,215	0.00%	\$ 10,934,753	6.17%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information in the future, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010 actuarial valuation, the entry age normal cost method was used. The actuarial assumption included a 4.5 percent investment rate of return (net of administrative expenses), annual salary increases of 6% and an annual healthcare cost trend rate of 7.5 percent in 2010, decreasing .5 percent to an ultimate rate of 5.5% in 2014 with rates gradually decreasing from 5.3% in 2015 to 4.2% in 2099 and later. The actuarial value of assets was not applicable since there are none. The UAAL is being amortized based on a level dollar 30 year open period.

Note 9. Risk Management

The Borough is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Borough has established a Self Insurance Fund and a Workmen's Compensation Fund (internal service funds), respectively, to account for and finance its uninsured risks of loss. The Self Insurance Fund services all general liability, directors' and officers' liability, and unemployment compensation claims for risk of loss. The Workmen's Compensation Fund provides coverage up to a maximum of \$ 500,000 for each worker's compensation claim. The Borough has purchased workmen's compensation insurance for claims in excess of coverage provided by the Fund, and also has purchased vehicle insurance and employee bonding coverage. Settlements have not exceeded insurance coverage for each of the past three years.

The general fund, all enterprise funds, and all internal service funds (except the Insurance Funds) participate in the program and make payments to the Self Insurance and Workmen's Compensation Funds (Insurance Funds) based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

Insurance Fund liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities are computed under actuarial formulas and include an amount for claims that have been incurred but not reported.

Changes in the general and workers' compensation claims liability amounts for the prior two years were:

	Liability Beginning	Current Year Claims and Changes in Estimates	Claim Payments	Liability Ending
2011				
Self-insurance fund	\$ 101,519	\$ 15,378	(\$ 8,914)	\$ 108,703
Workers' compensation fund	514,578	892,204	(489,749)	917,033
2010				
Self-insurance fund	\$ 131,725	(\$ 25,678)	(\$ 4,528)	\$ 101,519
Workers' compensation fund	508,420	182,154	(175,996)	514,578

The Borough is part of the Capital Region Insurance Trust (CRIT). This trust consists of a group of municipalities that have pooled their interests together in order to establish a self funded medical insurance plan in order to better control insurance rates. The Borough pays a premium to CRIT that consists of a portion for actual claim expenses, administrative costs, reinsurance costs and a reserve account. At year end, the actual claims of the Borough are reviewed and the reserve account is used to fund any excess claims for the Borough over premiums paid during the year. If any funds remain in the reserve account, 15% of the total reserve balance could possibly be used to fund claim overages for the trust. The reinsurance policy that is purchased through the Pennsylvania Municipal Health Insurance Cooperative is used to pay the claims. Therefore, the expense recognized by the Borough is limited to the premiums paid during the year. Any potential refund of the reserve account is calculated and received by the Borough several months after year end. Total payments by the Borough to CRIT during the year were \$ 2,877,885. During 2011, the Borough received \$ 391,182 from CRIT as a refund for prior premiums paid.

Note 10. Commitments

The Borough has the following projects open at December 31, 2011:

Project Description	Electric	Gas	Total estimated costs			General	Costs paid as of 12/31/11	Costs to complete
			Water	Sewer				
Upgrade feeder #163	\$ 150,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 80,662	\$ 69,338	
Upgrade feeder #964	200,000	0	0	0	0	163,249	36,751	
Addition to Commerce Street substation	275,000	0	0	0	0	260,002	14,998	
Additions on Orchard Drive	250,000	0	0	0	0	200	249,800	
Extension of feeders #242 and #251	150,000	0	0	0	0	833	149,167	
Upgrade gas mains	0	809,000	0	0	0	491,910	317,090	
EPA water project	0	0	275,000	0	0	234,300	40,700	
SCADA Facilities at water plant	0	0	2,500,000	0	0	2,345,558	154,442	
Upgrade at Long Pine Dam	0	0	530,000	0	0	65,998	464,002	
Wastewater treatment plant upgrade (*)	0	0	0	37,066,560	0	904,627	36,161,933	
Garage at wastewater treatment plant	0	0	0	1,500,000	0	0	1,500,000	
Act 537 sewage plan	0	0	0	100,000	0	4,812	95,188	
UV project at wastewater treatment plant	0	0	0	2,000,000	0	69,440	1,930,560	
Construction fund for future traffic related public improvements	0	0	0	0	150,000	0	150,000	
Recreation for Chambersburg Family Townhomes	0	0	0	0	123,000	94,449	28,551	
Various	58,000		13,000	0	187,942	142,676	116,266	
Totals	\$ 1,083,000	\$ 809,000	\$ 3,318,000	\$ 40,666,560	\$ 460,942	\$ 4,858,716	\$ 41,478,786	

(*) The Borough has a signed agreement with the local Townships related to the wastewater treatment plant upgrades. The majority of the project is for the additional capacity of the Townships and therefore will be paid for by the Townships. Of this total cost, approximately 70% will be reimbursed by the Townships

Note 11. Conduit Debt Obligations

From time to time, the Municipal Authority of the Borough of Chambersburg has issued Revenue Notes to provide financial assistance to local not-for-profit organizations. Banks agree to loan the funds (via purchasing the Revenue Notes) to the entities, and the Municipal Authority assigns all rights, title, and interest in, and all sums payable by the entities to the banks. The notes are fully secured by the properties financed and are payable solely from resources of the entities that ultimately receive the financing. The Municipal Authority is not obligated in any manner for repayment of the debt. Consequently, this debt and the corresponding mortgages receivable are not reflected in these financial statements.

As of December 31, 2011 outstanding note balances under conduit debt arrangements were as follows:

Wilson College	\$ 31,180,000
Lutheran Homes	2,488,729
Children's Aid Society	1,577,399
Franklin County Library	445,000

Note 12. Contingencies

The Borough is subject to real estate tax assessment appeals on an ongoing basis. If tax appeals are successful, the result is a loss of tax revenue to the Borough. It is anticipated that any material loss of tax revenue on individual tax appeals will be offset with additional revenues from other properties or other sources of revenue and would not create a financial hardship to the Borough.

The Borough is involved with various lawsuits in the normal course of operations. In most cases, management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. Management believes that losses resulting from these matters, if any, would be substantially covered under the Borough's professional liability insurance policy and would not have a material effect on the financial position of the Borough.

REQUIRED SUPPLEMENTARY INFORMATION

**BOROUGH OF CHAMBERSBURG
PENSION TRUST FUNDS**

UNAUDITED REQUIRED SCHEDULE OF FUNDING PROGRESS

	Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Overfunded) Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
General:							
	01/01/03	13,634,556	12,130,524 (1,504,032)	112.40%	4,950,432 (30.40%)
	01/01/05	14,503,660	13,918,831 (584,829)	104.20%	5,708,522 (10.20%)
	01/01/07	16,163,230	15,456,281 (706,949)	104.60%	6,172,381 (11.50%)
	01/01/09	15,984,144	17,342,609	1,358,465	92.17%	6,873,071	19.77%
	01/01/11	17,085,584	20,391,819	3,306,235	83.79%	7,587,865	43.57%
Police:							
	01/01/03	5,659,347	6,562,832	903,485	86.20%	1,307,425	69.10%
	01/01/05	6,240,158	7,671,322	1,431,164	81.30%	1,431,559	100.00%
	01/01/07	7,351,019	8,637,360	1,286,341	85.10%	1,558,754	82.50%
	01/01/09	7,840,209	9,833,514	1,993,305	79.73%	1,824,708	109.24%
	01/01/11	9,081,804	10,583,842	1,502,038	85.81%	1,918,058	78.31%
Firemen:							
	01/01/03	3,081,688	2,933,945 (147,743)	105.00%	728,352 (20.30%)
	01/01/05	3,209,245	3,382,444	173,199	94.90%	925,075	18.70%
	01/01/07	3,546,426	3,672,003	125,577	96.60%	867,312	14.50%
	01/01/09	3,584,099	4,619,052	1,034,953	77.59%	1,231,786	84.02%
	01/01/11	3,946,197	5,221,325	1,275,128	75.58%	1,330,676	95.83%

**BOROUGH OF CHAMBERSBURG
PENSION TRUST FUNDS**

UNAUDITED REQUIRED SCHEDULE OF EMPLOYER CONTRIBUTIONS

Calendar Year	----- General -----			----- Police -----			----- Firemen -----		
	Annual Required Contribution	Contributions From Employer	Percentage Contributed	Annual Required Contribution	Contributions From Employer	Percentage Contributed	Annual Required Contribution	Contributions From Employer	Percentage Contributed
2006	351,368	351,368	100.0%	404,176	404,176	100.0%	109,004	109,004	100.0%
2007	438,129	438,129	100.0%	454,641	454,641	100.0%	131,129	131,129	100.0%
2008	418,654	418,654	100.0%	453,071	453,071	100.0%	112,021	112,021	100.0%
2009	454,028	454,028	100.0%	466,941	466,941	100.0%	124,682	124,682	100.0%
2010	472,936	472,936	100.0%	490,641	490,641	100.0%	116,340	116,340	100.0%
2011	648,162	759,192	100%+	474,748	474,748	100.0%	204,343	204,343	100.0%

BOROUGH OF CHAMBERSBURG
OPEB (Other Postemployment Benefit Plan)

UNAUDITED REQUIRED SCHEDULE OF FUNDING PROGRESS

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/08	\$ 0	\$ 812,880	\$ 812,880	0.00%	\$ 9,425,804	8.62%
01/01/10	\$ 0	\$ 674,215	\$ 674,215	0.00%	\$ 10,934,753	6.17%

This schedule will be expanded to show multi-year trend information as additional actuarial valuations are performed in the future.

BOROUGH OF CHAMBERSBURG
UNAUDITED REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the year ended December 31, 2011

	Original/Final Budget	Actual (Budgetary/GAAP Basis)	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 6,537,500	\$ 6,357,131	(\$ 180,369)
Licenses and permits	308,500	320,776	12,276
Fines and forfeits	124,000	122,283	(1,717)
Investment earnings	20,000	5,517	(14,483)
Intergovernmental	924,400	967,146	42,746
Departmental charges for services	1,419,550	1,638,809	219,259
Miscellaneous	160,400	135,794	(24,606)
Total revenues	<u>9,494,350</u>	<u>9,547,456</u>	<u>53,106</u>
EXPENDITURES			
General government	847,950	956,168	(108,218)
Police department	4,343,725	4,194,733	148,992
Fire department	2,187,050	2,321,754	(134,704)
General health and ambulance service	1,115,400	1,042,318	73,082
Planning and zoning	438,350	537,731	(99,381)
Highways	958,450	1,163,884	(205,434)
Other	539,200	453,549	85,651
Culture and recreation	1,408,050	1,180,795	227,255
Miscellaneous expense	115,500	79,599	35,901
Total expenditures	<u>11,953,675</u>	<u>11,930,531</u>	<u>23,144</u>
Excess (deficiency) of revenues over expenditures	(<u>2,459,325</u>)	(<u>2,383,075</u>)	<u>76,250</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	2,577,000	2,577,000	0
Transfers out	(<u>298,000</u>)	(<u>309,272</u>)	(<u>11,272</u>)
Total other financing sources and uses	<u>2,279,000</u>	<u>2,267,728</u>	(<u>11,272</u>)
Net change in fund balance	(<u>\$ 180,325</u>)	(<u>115,347</u>)	<u>\$ 64,978</u>
Fund balance - beginning		<u>1,375,034</u>	
Fund balance - ending		<u>\$ 1,259,687</u>	

BOROUGH OF CHAMBERSBURG
UNAUDITED REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND - GRANT PROGRAMS
For the year ended December 31, 2011

	Original/Final Budget	Actual (Budgetary/GAAP Basis)	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 50	\$ 51	\$ 1
Intergovernmental	2,404,700	1,081,211	(1,323,489)
Miscellaneous	<u>82,800</u>	<u>53,424</u>	<u>(29,376)</u>
Total revenues	<u>2,487,550</u>	<u>1,134,686</u>	<u>(1,352,864)</u>
EXPENDITURES (by department)			
General government	0	59,043	59,043
Public Safety			
Police department	6,000	22,225	16,225
Fire department	0	56,647	56,647
Public works			
Highways	0	190,926	190,926
Culture and recreation	773,300	266,984	(506,316)
Community development	1,546,100	505,744	(1,040,356)
Miscellaneous expenditures	<u>0</u>	<u>0</u>	<u>0</u>
Total expenditures	<u>2,325,400</u>	<u>1,101,569</u>	<u>(1,223,831)</u>
Excess (deficiency) of revenues over expenditures	<u>162,150</u>	<u>33,117</u>	<u>(129,033)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	5,100	29,334	24,234
Transfers out	<u>0</u>	<u>(5,444)</u>	<u>(5,444)</u>
Total other financing sources and uses	<u>5,100</u>	<u>23,890</u>	<u>18,790</u>
Net change in fund balance	<u>\$ 167,250</u>	57,007	<u>(\$ 110,243)</u>
Fund balance - beginning		<u>385,608</u>	
Fund balance - ending		<u>\$ 442,615</u>	

OTHER SUPPLEMENTARY INFORMATION

OTHER GOVERNMENTAL FUNDS

Liquid Fuels Fund – This fund (special revenue fund) is used to account for the Borough's share of Liquid Fuels funds disbursed by the Commonwealth of Pennsylvania. The funds are legally restricted to the construction and maintenance of Borough streets and bridges.

Capital Reserve Fund – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

BOROUGH OF CHAMBERSBURG

**COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
December 31, 2011**

	Special Revenue Liquid Fuels Fund	Capital Reserve Fund	Total - Other Governmental Funds
ASSETS			
Cash and equity in pooled cash and investments	\$ 231,730	\$ 2,909,651	\$ 3,141,381
Other receivables	0	203,927	203,927
Total assets	<u>\$ 231,730</u>	<u>\$ 3,113,578</u>	<u>\$ 3,345,308</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 0	\$ 18,162	\$ 18,162
Total liabilities	<u>0</u>	<u>18,162</u>	<u>18,162</u>
Fund balances			
Nonspendable for long term receivables	0	190,324	190,324
Restricted	231,730	2,905,092	3,136,822
Total fund balances	<u>231,730</u>	<u>3,095,416</u>	<u>3,327,146</u>
Total liabilities and fund balances	<u>\$ 231,730</u>	<u>\$ 3,113,578</u>	<u>\$ 3,345,308</u>

BOROUGH OF CHAMBERSBURG

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
For the Year Ended December 31, 2011**

	Special Revenue Liquid Fuels Fund	Capital Reserve Fund	Total - Other Governmental Funds
REVENUES			
Investment earnings	\$ 605	\$ 16,604	\$ 17,209
Intergovernmental	370,483	0	370,483
Contributions and donations	0	134,832	134,832
Miscellaneous	0	108,282	108,282
Total revenues	<u>371,088</u>	<u>259,718</u>	<u>630,806</u>
EXPENDITURES			
General government	0	12,047	12,047
Public Safety			
Police department	0	13,710	13,710
Fire department	0	33,775	33,775
Ambulance	0	10,888	10,888
Public works			
Highways	0	92,687	92,687
Other	0	22,638	22,638
Culture and recreation	0	107,973	107,973
Community development	0	63,133	63,133
Total expenditures	<u>0</u>	<u>356,851</u>	<u>356,851</u>
Excess (deficiency) of revenues over expenditures	<u>371,088</u>	<u>(97,133)</u>	<u>273,955</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	0	330,716	330,716
Transfers out	<u>(1,000,000)</u>	<u>(24,334)</u>	<u>(1,024,334)</u>
Total other financing sources and uses	<u>(1,000,000)</u>	<u>306,382</u>	<u>(693,618)</u>
Net change in fund balances	<u>(628,912)</u>	<u>209,249</u>	<u>(419,663)</u>
Fund balances - beginning	<u>860,642</u>	<u>2,886,167</u>	<u>3,746,809</u>
Fund balances - ending	<u><u>\$ 231,730</u></u>	<u><u>\$ 3,095,416</u></u>	<u><u>\$ 3,327,146</u></u>

BOROUGH OF CHAMBERSBURG

**BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND - LIQUID FUELS
For the year ended December 31, 2011**

	Original/Final Budget	Actual (Budgetary/GAAP Basis)	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 2,500	\$ 605	(\$ 1,895)
Intergovernmental	400,000	370,483	(29,517)
Total revenues	<u>\$ 402,500</u>	<u>\$ 371,088</u>	<u>(\$ 31,412)</u>
EXPENDITURES	<u>0</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of revenues over expenditures	<u>402,500</u>	<u>371,088</u>	<u>(31,412)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	0	0	0
Transfers out	(1,000,000)	(1,000,000)	0
Total other financing sources and uses	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>0</u>
Net change in fund balance	<u>(\$ 597,500)</u>	<u>(628,912)</u>	<u>(\$ 31,412)</u>
Fund balance - beginning		860,642	
Fund balance - ending		<u>\$ 231,730</u>	

BOROUGH OF CHAMBERSBURG**BUDGETARY COMPARISON SCHEDULE
CAPITAL RESERVE FUND
For the year ended December 31, 2011**

	Original/Final Budget	Actual (Budgetary/GAAP Basis)	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 25,000	\$ 16,604	(\$ 8,396)
Licenses and permits	0	0	0
Contributions and donations	65,000	134,832	69,832
Miscellaneous	18,000	108,282	90,282
Total revenues	<u>108,000</u>	<u>259,718</u>	<u>151,718</u>
EXPENDITURES			
General government	75,000	12,047	62,953
Police department	19,500	13,710	5,790
Fire department	65,000	33,775	31,225
Ambulance	3,000	10,888	(7,888)
Highways	0	92,687	(92,687)
Other public works	150,000	22,638	127,362
Culture and recreation	108,550	107,973	577
Miscellaneous expense	55,000	63,133	(8,133)
Total expenditures	<u>476,050</u>	<u>356,851</u>	<u>119,199</u>
Excess (deficiency) of revenues over expenditures	(368,050)	(97,133)	270,917
OTHER FINANCING SOURCES (USES)			
Transfers in	308,000	330,716	22,716
Transfers out	(100)	(24,334)	(24,234)
Total other financing sources and uses	<u>307,900</u>	<u>306,382</u>	<u>(1,518)</u>
Net change in fund balance	(\$ 60,150)	209,249	\$ 269,399
Fund balance - beginning		<u>2,886,167</u>	
Fund balance - ending		<u>\$ 3,095,416</u>	

OTHER ENTERPRISE FUNDS

BOROUGH OF CHAMBERSBURG

**COMBINING STATEMENT OF NET ASSETS
OTHER ENTERPRISE FUNDS
December 31, 2011**

	Sanitation Fund	Parking Fund	Total Other Enterprise Funds
ASSETS			
Current assets			
Cash and equity in pooled cash and investments	\$ 1,077,356	\$ 153,899	\$ 1,231,255
Accounts receivable, net	139,492	31,893	171,385
Other receivables	2,185	314	2,499
Prepaid expenses	1,035	0	1,035
Total current assets	<u>1,220,068</u>	<u>186,106</u>	<u>1,406,174</u>
Noncurrent assets			
Capital assets			
Land	0	111,153	111,153
Buildings and system	75,529	0	75,529
Improvements other than buildings	10,739	44,998	55,737
Machinery and equipment	442,180	127,138	569,318
Less accumulated depreciation	(479,668)	(152,018)	(631,686)
Total capital assets	<u>48,780</u>	<u>131,271</u>	<u>180,051</u>
Total noncurrent assets	<u>48,780</u>	<u>131,271</u>	<u>180,051</u>
Total assets	<u>\$ 1,268,848</u>	<u>\$ 317,377</u>	<u>\$ 1,586,225</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 22,717	\$ 872	\$ 23,589
Accrued wages payable	8,373	512	8,885
Compensated absences - current	29,694	896	30,590
Total current liabilities	<u>60,784</u>	<u>2,280</u>	<u>63,064</u>
Noncurrent liabilities			
Compensated absences	21,814	6,489	28,303
Net OPEB obligation	9,872	1,791	11,663
Total non-current liabilities	<u>31,686</u>	<u>8,280</u>	<u>39,966</u>
Total liabilities	<u>92,470</u>	<u>10,560</u>	<u>103,030</u>
NET ASSETS			
Invested in capital assets, net of related debt	48,780	131,271	180,051
Unrestricted	1,127,598	175,546	1,303,144
Total net assets	<u>1,176,378</u>	<u>306,817</u>	<u>1,483,195</u>
Total liabilities and net assets	<u>\$ 1,268,848</u>	<u>\$ 317,377</u>	<u>\$ 1,586,225</u>

BOROUGH OF CHAMBERSBURG

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
OTHER ENTERPRISE FUNDS
For the Year Ended December 31, 2011**

	Sanitation Fund	Parking Fund	Total Other Enterprise Funds
REVENUES			
Charges for services	\$ 1,984,646	\$ 108,567	\$ 2,093,213
Miscellaneous	48,085	43,375	91,460
Total operating revenues	<u>2,032,731</u>	<u>151,942</u>	<u>2,184,673</u>
OPERATING EXPENSES			
Operation and maintenance	0	42,458	42,458
Collection and disposal	1,995,496	0	1,995,496
Customer accounting and administrative	260,963	95,247	356,210
Depreciation	9,700	3,716	13,416
Total operating expenses	<u>2,266,159</u>	<u>141,421</u>	<u>2,407,580</u>
Operating income (loss)	(<u>233,428</u>)	<u>10,521</u>	(<u>222,907</u>)
NONOPERATING REVENUES (EXPENSES)			
Interest and investment revenue	5,470	692	6,162
Intergovernmental revenues	80,156	8,766	88,922
Total nonoperating revenue (expenses)	<u>85,626</u>	<u>9,458</u>	<u>95,084</u>
Change in net assets	(<u>147,802</u>)	<u>19,979</u>	(<u>127,823</u>)
Total net assets - beginning	<u>1,324,180</u>	<u>286,838</u>	<u>1,611,018</u>
Total net assets - ending	<u>\$ 1,176,378</u>	<u>\$ 306,817</u>	<u>\$ 1,483,195</u>

BOROUGH OF CHAMBERSBURG
COMBINING STATEMENT OF CASH FLOWS
OTHER ENTERPRISE FUNDS
For the Year Ended December 31, 2011

	Sanitation Fund	Parking Fund	Total Other Enterprise Funds
Cash flows from operating activities:			
Receipts from customers	\$ 2,020,770	\$ 120,439	\$ 2,141,209
Payments to suppliers	(1,351,828)	(82,711)	(1,434,539)
Payments to and on behalf of employees	(928,781)	(55,438)	(984,219)
Net cash provided (used) by operating activities	(259,839)	(17,710)	(277,549)
Cash flows from capital and related financing activities:			
Purchase of capital assets	(12,764)	0	(12,764)
Net cash provided (used) by capital and related financing activities	(12,764)	0	(12,764)
Cash flows from non-capital financing activities:			
Grants received	80,156	8,766	88,922
Net cash provided (used) by non-capital financing activities	80,156	8,766	88,922
Cash flows from investing activities:			
Interest and dividends received	7,286	892	8,178
Net cash provided (used) by investing activities	7,286	892	8,178
Net increase (decrease) in cash and cash equivalents	(185,161)	(8,052)	(193,213)
Cash and cash equivalents - beginning of the year	1,262,517	161,951	1,424,468
Cash and cash equivalents - end of the year	<u>\$ 1,077,356</u>	<u>\$ 153,899</u>	<u>\$ 1,231,255</u>
Reconciliation of income from operations to net cash provided (used) by operating activities			
Operating income (loss)	(\$ 233,428)	\$ 10,521	(\$ 222,907)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization expense	9,700	3,716	13,416
(Increase) decrease in:			
Accounts receivable	(11,961)	(31,503)	(43,464)
Prepaid expenses	(29)	0	(29)
Increase (decrease) in:			
Accounts payable	(24,121)	(444)	(24,565)
Net cash provided (used) by operating activities	<u>(\$ 259,839)</u>	<u>(\$ 17,710)</u>	<u>(\$ 277,549)</u>

INTERNAL SERVICE FUNDS

Stores Fund – The Stores Department is responsible for the purchase, storage, and disbursal of inventory which is used to support the construction and maintenance functions of the Borough utilities.

Administrative Services Fund – Administrative Services is synonymous with the Finance Department which is responsible for the complete financial, utility meter reading, and parking meter operations as well as the operation and maintenance of Borough Hall.

Motor Equipment Fund – This fund supports the activities of the Motor Equipment Department which manages a rolling stock of more than 120 vehicles.

Self-insurance Fund – This fund is used for the purpose of funding risk which the Borough does not transfer to commercial insurance carriers or insurance pools.

Engineering Fund – This fund supports the activities of the Engineering Department which is responsible for furnishing engineering, surveying, drafting, and utility location information to other departments. The department also designs and inspects public works projects.

Worker's Compensation – This fund underwrites the risks to the Borough resulting from job-related injury or illness to its employees.

BOROUGH OF CHAMBERSBURG**COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
December 31, 2011**

	Stores Fund	Motor Equipment Fund	Self Insurance Fund
ASSETS			
Current assets			
Cash and equity in pooled cash and investments	\$ 383,644	\$ 5,108,603	\$ 5,647,556
Accounts receivable, net	195	22,120	0
Other receivables	779	10,370	11,463
Receivables from other governments	0	0	0
Inventories	1,328,434	83,833	0
Prepaid expenses	131	2,346	0
Total current assets	<u>1,713,183</u>	<u>5,227,272</u>	<u>5,659,019</u>
Noncurrent assets			
Capital Assets			
Land	0	13,984	0
Buildings and system	5,823	153,728	0
Machinery and equipment	5,287	7,154,997	0
Less accumulated depreciation	(8,418)	(4,412,890)	0
Total capital assets	<u>2,692</u>	<u>2,909,819</u>	<u>0</u>
Total assets	<u>\$ 1,715,875</u>	<u>\$ 8,137,091</u>	<u>\$ 5,659,019</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 117,610	\$ 7,290	\$ 0
Salaries payable	1,162	2,705	0
Compensated absences - current	6,728	11,154	0
Liability for self insured losses - current	0	0	43,584
Total current liabilities	<u>125,500</u>	<u>21,149</u>	<u>43,584</u>
Noncurrent liabilities			
Compensated absences	3,373	12,826	0
Liability for self insured losses	0	0	65,119
Net OPEB obligation	2,389	3,853	0
Total noncurrent liabilities	<u>5,762</u>	<u>16,679</u>	<u>65,119</u>
Total liabilities	<u>131,262</u>	<u>37,828</u>	<u>108,703</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,692	2,909,819	0
Unrestricted	<u>1,581,921</u>	<u>5,189,444</u>	<u>5,550,316</u>
Total net assets	<u>1,584,613</u>	<u>8,099,263</u>	<u>5,550,316</u>
Total liabilities and net assets	<u>\$ 1,715,875</u>	<u>\$ 8,137,091</u>	<u>\$ 5,659,019</u>

Engineering Fund	Worker's Compensation Fund	Administrative Services Fund	Total Internal Service Funds
\$ 200,946	\$ 28,768	\$ 0	\$ 11,369,517
0	0	2,492	24,807
407	57	0	23,076
0	40,000	0	40,000
0	0	0	1,412,267
0	0	0	2,477
<u>201,353</u>	<u>68,825</u>	<u>2,492</u>	<u>12,872,144</u>
0	0	0	13,984
0	0	0	159,551
43,639	0	0	7,203,923
(39,031)	0	0	(4,460,339)
<u>4,608</u>	<u>0</u>	<u>0</u>	<u>2,917,119</u>
<u>\$ 205,961</u>	<u>\$ 68,825</u>	<u>\$ 2,492</u>	<u>\$ 15,789,263</u>
\$ 1,389	\$ 19,220	\$ 17,535	\$ 163,044
970	37	16,266	21,140
16,145	0	100,240	134,267
0	367,683	0	411,267
<u>18,504</u>	<u>386,940</u>	<u>134,041</u>	<u>729,718</u>
12,172	0	153,267	181,638
0	549,350	0	614,469
<u>1,098</u>	<u>0</u>	<u>21,271</u>	<u>28,611</u>
<u>13,270</u>	<u>549,350</u>	<u>174,538</u>	<u>824,718</u>
<u>31,774</u>	<u>936,290</u>	<u>308,579</u>	<u>1,554,436</u>
4,608	0	0	2,917,119
<u>169,579</u>	<u>(867,465)</u>	<u>(306,087)</u>	<u>11,317,708</u>
<u>174,187</u>	<u>(867,465)</u>	<u>(306,087)</u>	<u>14,234,827</u>
<u>\$ 205,961</u>	<u>\$ 68,825</u>	<u>\$ 2,492</u>	<u>\$ 15,789,263</u>

BOROUGH OF CHAMBERSBURG**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
For the Year Ended December 31, 2011**

	Stores Fund	Motor Equipment Fund	Self Insurance Fund
OPERATING REVENUES			
Charges for services	\$ 152,691	\$ 2,096,258	\$ 140,036
Miscellaneous	0	0	0
Total operating revenues	<u>152,691</u>	<u>2,096,258</u>	<u>140,036</u>
OPERATING EXPENSES			
Operation and maintenance	128,950	848,945	0
General and administrative	53,421	148,157	0
Claim payments and special services	0	0	125,966
Increase (decrease) in expected unpaid losses	0	0	7,184
Depreciation and amortization	146	527,587	0
Total operating expenses	<u>182,517</u>	<u>1,524,689</u>	<u>133,150</u>
Operating income (loss)	<u>(29,826)</u>	<u>571,569</u>	<u>6,886</u>
NONOPERATING REVENUES (EXPENSES)			
Interest and investment revenue	1,706	20,729	24,459
Gain (loss) on sale of assets	0	18,280	0
Other nonoperating revenues	89,976	949	0
Reimbursement of prior year expense	0	0	195,680
Intergovernmental revenue	11,700	18,842	0
Total non-operating revenue (expenses)	<u>103,382</u>	<u>58,800</u>	<u>220,139</u>
Income (loss) before transfers	73,556	630,369	227,025
Transfers in	0	0	0
Transfers out	0	(56,000)	(155,000)
Change in net assets	73,556	574,369	72,025
Total net assets - beginning	<u>1,511,057</u>	<u>7,524,894</u>	<u>5,478,291</u>
Total net assets - ending	<u>\$ 1,584,613</u>	<u>\$ 8,099,263</u>	<u>\$ 5,550,316</u>

Engineering Fund	Worker's Compensation Fund	Administrative Services Fund	Total Internal Service Funds
\$ 189,896	\$ 0	\$ 2,339,162	\$ 4,918,043
0	41,389	4,404	45,793
<u>189,896</u>	<u>41,389</u>	<u>2,343,566</u>	<u>4,963,836</u>
33,817	0	2,394,838	3,406,550
135,961	86,920	0	424,459
0	494,399	0	620,365
0	402,455	0	409,639
1,892	0	0	529,625
<u>171,670</u>	<u>983,774</u>	<u>2,394,838</u>	<u>5,390,638</u>
<u>18,226</u>	<u>(942,385)</u>	<u>(51,272)</u>	<u>(426,802)</u>
871	682	0	48,447
0	0	0	18,280
0	0	0	90,925
0	0	0	195,680
5,354	0	103,912	139,808
<u>6,225</u>	<u>682</u>	<u>103,912</u>	<u>493,140</u>
24,451	(941,703)	52,640	66,338
0	79,000	0	79,000
<u>(25,000)</u>	<u>0</u>	<u>(89,000)</u>	<u>(325,000)</u>
(549)	(862,703)	(36,360)	(179,662)
<u>174,736</u>	<u>(4,762)</u>	<u>(269,727)</u>	<u>14,414,489</u>
<u>\$ 174,187</u>	<u>(\$ 867,465)</u>	<u>(\$ 306,087)</u>	<u>\$ 14,234,827</u>

BOROUGH OF CHAMBERSBURG
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended December 31, 2011

	Stores Fund	Motor Equipment Fund	Self Insurance Fund
Cash flows from operating activities:			
Interfund services provided	\$ 242,598	\$ 2,097,451	\$ 140,036
Payments to suppliers	(98,599)	(605,382)	(125,966)
Payments to and on behalf of employees	(121,664)	(439,478)	0
Net cash provided (used) by operating activities	<u>22,335</u>	<u>1,052,591</u>	<u>14,070</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	0	(375,666)	0
Proceeds from sale of capital assets	<u>0</u>	<u>18,280</u>	<u>0</u>
Net cash provided (used) by capital and related financing activities	<u>0</u>	<u>(357,386)</u>	<u>0</u>
Cash flows from non-capital financing activities:			
Transfer from other funds	0	0	0
Transfer to other funds	0	(56,000)	(155,000)
Refund received for health insurance	0	0	195,680
Grants received	<u>11,700</u>	<u>18,842</u>	<u>0</u>
Net cash provided (used) by non-capital financing activities	<u>11,700</u>	<u>(37,158)</u>	<u>40,680</u>
Cash flows from investing activities:			
Interest and dividends received	<u>2,025</u>	<u>24,365</u>	<u>30,588</u>
Net cash provided (used) by investing activities	<u>2,025</u>	<u>24,365</u>	<u>30,588</u>
Net increase (decrease) in cash and cash equivalents	<u>36,060</u>	<u>682,412</u>	<u>85,338</u>
Cash and cash equivalents - beginning of the year	<u>347,584</u>	<u>4,426,191</u>	<u>5,562,218</u>
Cash and cash equivalents - end of the year	<u><u>\$ 383,644</u></u>	<u><u>\$ 5,108,603</u></u>	<u><u>\$ 5,647,556</u></u>
Reconciliation of income from operations to net cash provided (used) by operating activities			
Operating income (loss)	(\$ 29,826)	\$ 571,569	\$ 6,886
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization expense	146	527,587	0
Miscellaneous nonoperating income	89,976	949	0
(Increase) decrease in:			
Accounts receivable	(69)	244	0
Inventories	(156,107)	(18,643)	0
Prepaid expenses	1	(104)	0
Increase (decrease) in:			
Accounts payable and accrued expenses	<u>118,214</u>	<u>(29,011)</u>	<u>7,184</u>
Net cash provided (used) by operating activities	<u><u>\$ 22,335</u></u>	<u><u>\$ 1,052,591</u></u>	<u><u>\$ 14,070</u></u>

Engineering Fund	Worker's Compensation Fund	Administrative Services Fund	Total
\$ 189,896	\$ 1,389	\$ 2,343,551	\$ 5,014,921
(38,435)	(564,044)	(665,574)	(2,098,000)
(127,894)	(10,808)	(1,692,889)	(2,392,733)
<u>23,567</u>	<u>(573,463)</u>	<u>(14,912)</u>	<u>524,188</u>
0	0	0	(375,666)
<u>0</u>	<u>0</u>	<u>0</u>	<u>18,280</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>(357,386)</u>
0	79,000	0	79,000
(25,000)	0	(89,000)	(325,000)
0	0	0	195,680
<u>5,354</u>	<u>0</u>	<u>103,912</u>	<u>139,808</u>
<u>(19,646)</u>	<u>79,000</u>	<u>14,912</u>	<u>89,488</u>
<u>1,081</u>	<u>2,272</u>	<u>0</u>	<u>60,331</u>
<u>1,081</u>	<u>2,272</u>	<u>0</u>	<u>60,331</u>
<u>5,002</u>	<u>(492,191)</u>	<u>0</u>	<u>316,621</u>
<u>195,944</u>	<u>520,959</u>	<u>0</u>	<u>11,052,896</u>
<u>\$ 200,946</u>	<u>\$ 28,768</u>	<u>\$ 0</u>	<u>\$ 11,369,517</u>
\$ 18,226	(\$ 942,385)	(\$ 51,272)	(\$ 426,802)
1,892	0	0	529,625
0	0	0	90,925
0	(40,000)	(15)	(39,840)
0	0	0	(174,750)
0	0	0	(103)
<u>3,449</u>	<u>408,922</u>	<u>36,375</u>	<u>545,133</u>
<u>\$ 23,567</u>	<u>(\$ 573,463)</u>	<u>(\$ 14,912)</u>	<u>\$ 524,188</u>

TRUST AND AGENCY FUNDS

Trust Funds are used to account for assets held by the Borough in a trustee capacity. Agency Funds are used to account for assets held by the Borough as an agent for individuals, private organizations, other governments and/or other funds.

Police Pension Fund – This fund is used to account for the accumulation of resources for pension benefit payments to qualified public safety (police) employees.

Bargaining and Administrative Employees Pension Fund – This fund is used to account for the accumulation of resources for pension benefit payments to qualified employees of the Borough other than police or fire department employees.

Firemen's Pension Fund – This fund is used to account for the accumulation of resources for pension benefit payments to qualified Fire Department employees.

Citizen's Reward Fund – Trust fund used to hold contributions from private citizens for the purpose of rewarding police informants for their assistance in solving crime.

Sister City Fund – Trust fund used to hold money that accumulates for the specific purpose of “sister city” activities. Our sister city is Gotemba, Japan.

Project HEAT Fund – Trust fund to hold contributions from citizens for the purpose of assisting others pay their utility bills.

Payroll Clearing Fund – An account to temporarily hold every dollar expended through the payroll system. This includes net payroll, all taxes withheld, miscellaneous deductions and employers' share of Social Security/Medicare expense. Theoretically, every dollar contained within the account will eventually be paid out in net pay, taxes or other deductions.

Consumer Deposits Fund – Agency fund used to hold deposits on behalf of utility customers. Interest is earned and “tracked” for individual customers at the Borough's composite interest rate. These funds can be used to settle an outstanding account or returned to the customer whenever a “good credit history” record is attained. These funds are also returned to the customer whenever they move outside the Borough. Occasionally, some deposits and or down payments from other individuals and organizations for other purposes are deposited in this account and held until final resolution has occurred.

BOROUGH OF CHAMBERSBURG

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUNDS**

December 31, 2011

	Firemen's Pension Fund	Police Pension Fund	Bargaining and Administrative Employees Pension Fund	Total Pension Trust Funds
ASSETS				
Cash and cash equivalents	\$ 168,750	\$ 349,198	\$ 601,750	\$ 1,119,698
Mutual funds - U.S. Securities	1,018,864	2,363,309	4,305,623	7,687,796
Mutual funds - Stocks	2,291,790	5,294,824	9,682,996	17,269,610
Mutual funds - Real estate securities	108,973	267,640	469,239	845,852
Total assets	<u>\$ 3,588,377</u>	<u>\$ 8,274,971</u>	<u>\$ 15,059,608</u>	<u>\$ 26,922,956</u>
NET ASSETS				
Held in trust for benefits and other purposes	<u>\$ 3,588,377</u>	<u>\$ 8,274,971</u>	<u>\$ 15,059,608</u>	<u>\$ 26,922,956</u>

BOROUGH OF CHAMBERSBURG

**COMBINING STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
For the Year Ended December 31, 2011**

	Firemen's Pension Fund	Police Pension Fund	Bargaining and Administrative Employees Pension Fund	Total Pension Trust Funds
ADDITIONS				
Contributions				
Employer	\$ 204,343	\$ 474,748	\$ 759,192	\$ 1,438,283
Plan member	<u>72,308</u>	<u>0</u>	<u>0</u>	<u>72,308</u>
Total contributions	<u>276,651</u>	<u>474,748</u>	<u>759,192</u>	<u>1,510,591</u>
Investment income:				
Net appreciation (depreciation) in fair value of investments and gains (loss) on sale of investments	(121,722)	(265,123)	(518,742)	(905,587)
Interest, dividends and other	<u>77,784</u>	<u>183,539</u>	<u>334,572</u>	<u>595,895</u>
Total net investment income/(loss)	(43,938)	(81,584)	(184,170)	(309,692)
Total additions	<u>232,713</u>	<u>393,164</u>	<u>575,022</u>	<u>1,200,899</u>
DEDUCTIONS				
Benefits	231,341	489,212	1,114,433	1,834,986
Administrative expenses	<u>1,367</u>	<u>2,227</u>	<u>5,645</u>	<u>9,239</u>
Total deductions	<u>232,708</u>	<u>491,439</u>	<u>1,120,078</u>	<u>1,844,225</u>
Change in net assets	5	(98,275)	(545,056)	(643,326)
Net assets - beginning	<u>3,588,372</u>	<u>8,373,246</u>	<u>15,604,664</u>	<u>27,566,282</u>
Net assets - ending	<u>\$ 3,588,377</u>	<u>\$ 8,274,971</u>	<u>\$ 15,059,608</u>	<u>\$ 26,922,956</u>

BOROUGH OF CHAMBERSBURG

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
December 31, 2011**

	Citizen's Reward Fund	Sister City Fund	Project Heat Fund	Total Private Purpose Trust Funds
ASSETS				
Cash and equity in pooled cash and investments	\$ 10,345	\$ 19,478	\$ 12,628	\$ 42,451
Other receivables	21	0	0	21
Total assets	<u>\$ 10,366</u>	<u>\$ 19,478</u>	<u>\$ 12,628</u>	<u>\$ 42,472</u>
 NET ASSETS				
Held in trust for other purposes	<u>\$ 10,366</u>	<u>\$ 19,478</u>	<u>\$ 12,628</u>	<u>\$ 42,472</u>

BOROUGH OF CHAMBERSBURG

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

PRIVATE PURPOSE TRUST FUNDS

For the Year Ended December 31, 2011

	Citizen's Reward Fund	Sister City Fund	Project Heat Fund	Total Private Purpose Trust Funds
ADDITIONS				
Interest earnings	\$ 48	\$ 6	\$ 2	\$ 56
Contributions - public	150	0	9,019	9,169
Transfers from other funds	<u>0</u>	<u>0</u>	<u>10,000</u>	<u>10,000</u>
 Total additions	 <u>198</u>	 <u>6</u>	 <u>19,021</u>	 <u>19,225</u>
DEDUCTIONS				
Payments to sister city committee	0	0	0	0
Administrative expense	0	0	16,000	16,000
Miscellaneous expense	<u>768</u>	<u>0</u>	<u>0</u>	<u>768</u>
 Total deductions	 <u>768</u>	 <u>0</u>	 <u>16,000</u>	 <u>16,768</u>
 Change in net assets	 (570)	 6	 3,021	 2,457
 Net assets, beginning	 <u>10,936</u>	 <u>19,472</u>	 <u>9,607</u>	 <u>40,015</u>
 Net assets, ending	 <u>\$ 10,366</u>	 <u>\$ 19,478</u>	 <u>\$ 12,628</u>	 <u>\$ 42,472</u>

BOROUGH OF CHAMBERSBURG

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
For the Year Ended December 31, 2011**

	Balance 1/1/11	Additions	Deductions	Balance 12/31/11
<u>Payroll Clearing Fund</u>				
ASSETS				
Cash and cash equivalents	\$ 0	\$ 12,223,481	\$ 12,223,481	\$ 0
Total assets	<u>\$ 0</u>	<u>\$ 12,223,481</u>	<u>\$ 12,223,481</u>	<u>\$ 0</u>
LIABILITIES				
Withholdings	\$ 0	\$ 3,622,060	\$ 3,622,060	\$ 0
Total liabilities	<u>\$ 0</u>	<u>\$ 3,622,060</u>	<u>\$ 3,622,060</u>	<u>\$ 0</u>
<u>Consumer Deposit Fund</u>				
ASSETS				
Cash and cash equivalents	\$ 776,388	319,510	\$ 242,464	\$ 853,434
Other receivables	2,454	3,900	4,618	1,736
Total assets	<u>\$ 778,842</u>	<u>\$ 323,410</u>	<u>\$ 247,082</u>	<u>\$ 855,170</u>
LIABILITIES				
Consumer deposits	\$ 778,842	\$ 335,481	\$ 259,153	\$ 855,170
Total liabilities	<u>\$ 778,842</u>	<u>\$ 335,481</u>	<u>\$ 259,153</u>	<u>\$ 855,170</u>
<u>Total - All Agency Funds</u>				
ASSETS				
Cash and cash equivalents	\$ 776,388	\$ 12,542,991	\$ 12,465,945	\$ 853,434
Other receivables	2,454	3,900	4,618	1,736
Total assets	<u>\$ 778,842</u>	<u>\$ 12,546,891</u>	<u>\$ 12,470,563</u>	<u>\$ 855,170</u>
LIABILITIES				
Withholdings	\$ 0	\$ 3,622,060	\$ 3,622,060	\$ 0
Consumer deposits	778,842	335,481	259,153	855,170
Total liabilities	<u>\$ 778,842</u>	<u>\$ 3,957,541</u>	<u>\$ 3,881,213</u>	<u>\$ 855,170</u>

BOROUGH OF CHAMBERSBURG

**SCHEDULE OF REAL ESTATE TAXES RECEIVABLE - GENERAL FUND
YEAR ENDED DECEMBER 31, 2011**

	General Purpose
Assessed valuation of real property	\$ 191,067,050
Add: Additions	1,712,059
Less: Reductions and exonerations	<u>301,900</u>
Adjusted assessment	192,477,209
Tax rate	<u>20</u> mills
Total tax levied	3,849,544
Add: Penalties	10,026
Less: Discounts	(64,446)
Collections	<u>(3,523,665)</u>
2011 taxes receivable - December 31, 2011	271,459
Prior years' taxes	<u>80,310</u>
Total taxes receivable - December 31, 2011	<u><u>\$ 351,769</u></u>



Statistical Section

STATISTICAL SECTION

UNAUDITED

This section of the Borough of Chambersburg's comprehensive annual financial report presents detailed information as a context for the understanding what the information in the financial statements, note disclosures, and required supplementary information says about the municipality's overall financial health.

<u>Contents</u>	<u>Page(s)</u>
Financial Trends	75-81
These schedules contain trend information to help the reader understand how the municipality's financial performance and well-being have changed over time.	
Revenue Capacity	82-87
These schedules contain information to help the reader assess the municipality's most significant local revenues sources, the property tax, and the earned income tax.	
Debt Capacity	88-92
These schedules present information to help the reader assess the affordability of the municipality's current levels of outstanding debt and the municipality's ability to issue additional debt in the future.	
Demographic and Economic Information	93-94
These schedules offer economic and demographic indicators to help the reader understand the environment within which the municipality's financial activities take place.	
Operating Information	95-97
These schedules contain service information and infrastructure data to help the reader understand how the information in the municipality's financial report relates to the services the municipality provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The borough implemented Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

Financial Trends

These schedules contain trend information to help the reader understand how the Borough's financial performance and well-being have changed over time. These schedules include:

Net Assets by Component	Schedule 1
Changes in Net Assets	Schedule 2
Fund Balances, Governmental Funds	Schedule 3
Changes in Fund Balances, Governmental Funds	Schedule 4
Program Revenues by Function	Schedule 5
Tax Revenues by Source, Governmental Funds	Schedule 6

Schedule 1
Borough of Chambersburg, PA
Net Assets By Component
Last Nine Years
(accrual basis of accounting)

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Governmental Activities									
Invested in capital Assets, Net of related debt	\$25,275,852	\$25,907,241	\$24,030,856	\$22,103,501	\$20,030,556	\$16,422,498	\$13,745,073	\$9,509,524	\$9,782,731
Restricted	3,769,761	1,193,916	1,452,889	1,168,346	786,100	392,808	613,697	690,381	476,545
Unrestricted	4,633,198	7,463,807	9,876,322	10,751,978	10,030,131	9,157,620	8,434,228	7,735,631	7,225,502
Total governmental activities net assets	33,678,811	34,564,964	35,360,067	34,023,825	30,846,787	25,972,926	22,792,998	17,935,536	17,484,778
Business - Type activities									
Invested in capital Assets, Net of related debt	76,493,701	75,126,828	74,790,451	71,707,129	69,516,503	67,563,288	63,674,212	58,883,260	59,029,207
Restricted									
Unrestricted	30,885,875	33,192,820	27,013,942	30,437,794	31,862,509	23,049,503	23,219,395	20,207,662	20,613,389
Total business -- type activities net assets	107,379,576	108,319,648	101,804,393	102,144,923	101,379,012	90,612,791	86,893,607	79,090,922	79,642,596
Primary Government									
Invested in capital Assets, Net of related debt	101,769,553	101,034,069	98,821,307	93,810,630	89,547,059	83,985,786	77,419,285	68,392,784	68,811,938
Restricted	3,769,761	1,193,916	1,452,889	1,168,346	786,100	392,808	613,697	690,381	476,545
Unrestricted	35,519,073	40,656,627	36,890,264	41,189,772	41,892,640	32,207,123	31,653,623	27,943,293	27,838,891
Total primary government net assets	\$141,058,387	\$142,884,612	\$137,164,460	\$136,168,748	\$132,225,799	\$116,585,717	\$109,686,605	\$97,026,458	\$97,127,374

As per GASB statement number 44, we are reporting government - wide information retroactively to 2003, which is the year of implementation of GASB statement number 34.

Schedule 2
Borough of Chambersburg, PA
Changes in Net Assets
Last Nine Years
(accrual basis of accounting)

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Expenses									
Governmental Activities:									
General Government	\$1,460,984	\$1,143,438	\$1,380,277	\$1,041,494	\$1,466,517	\$1,043,354	\$935,002	\$927,800	\$978,195
Public Safety	8,274,656	8,186,805	7,372,746	7,335,996	7,032,498	6,349,063	5,848,946	5,392,779	5,168,838
Public Services	2,315,450	2,113,662	1,963,186	1,117,850	542,993	1,852,946	876,150	1,472,316	1,409,781
Parks and Recreation	1,442,428	1,931,419	1,453,670	1,469,475	1,237,341	1,019,986	1,019,864	951,250	920,904
Community Development	776,979	313,210	475,765	661,485	579,662	467,084	142,451	374,668	434,341
Total governmental activities expenses	14,270,497	13,688,534	12,645,644	11,626,300	10,859,011	10,732,433	8,822,413	9,118,813	8,912,059
Business - Type activities									
Electric	33,550,331	30,413,576	33,623,997	26,899,617	17,036,148	18,523,367	13,715,436	16,542,623	17,457,025
Gas	7,136,724	7,311,796	8,694,454	10,858,357	9,804,046	10,084,205	10,454,000	8,774,060	8,070,655
Water	2,898,515	2,617,711	2,831,476	2,674,069	2,775,409	2,495,541	2,440,826	2,346,858	2,058,695
Sewer	5,283,679	5,630,067	5,152,404	5,372,469	4,435,959	4,165,673	4,002,632	3,910,354	3,722,403
Sanitation	2,274,672	2,070,085	2,092,023	2,045,442	1,900,908	1,875,660	1,791,125	1,745,817	1,557,641
Parking	173,881	166,447	164,223	145,482	146,970	164,675	180,746	160,206	167,957
Total business-type activities expense	51,317,802	48,209,682	52,558,577	47,995,436	36,099,440	37,309,121	32,584,765	33,479,918	33,034,376
Total primary government expenses	65,588,299	61,898,216	65,204,221	59,621,736	46,958,451	48,041,554	41,407,178	42,598,731	41,946,435
Program Revenues									
Governmental Activities:									
Charges for Services									
General Government	404,010	544,572	455,042	474,050	445,288	491,696	350,807	354,012	307,750
Public Safety	1,394,915	1,414,129	1,274,477	1,234,849	1,270,041	1,119,281	947,182	881,110	885,563
Public Services	2,391	2,880	3,366	4,314	10,406	32,156	26,408	35,720	32,351
Parks and Recreation	412,401	413,090	418,973	398,106	388,699	366,255	347,757	312,298	314,206
Community Development									
Operating Grants and Contributions	2,189,108	1,874,440	1,414,482	1,775,741	1,488,749	1,200,413	1,403,640	778,856	497,816
Capital Grants and Contributions	511,286	1,118,987	2,901,458	2,026,960	2,994,098	2,921,896	4,844,308	693,018	663,615
Total governmental activities program revenues	4,914,111	5,368,098	6,467,798	5,914,020	6,597,281	6,131,697	7,920,102	3,055,014	2,701,301
Business - Type activities									
Charges for Services									
Electric	32,243,631	34,765,216	30,785,021	25,655,849	23,374,049	19,731,687	17,329,059	16,534,958	17,270,856
Gas	7,812,764	8,323,329	9,410,294	10,971,012	10,111,337	10,295,262	11,611,918	9,065,105	8,470,100
Water	3,075,317	3,196,140	3,375,869	3,469,626	3,879,178	3,472,734	3,107,143	2,752,040	2,459,217
Sewer	5,084,952	4,570,569	4,096,262	4,068,865	4,027,596	3,796,020	3,578,237	3,248,861	2,705,203
Sanitation	2,032,789	2,039,950	2,045,885	2,067,715	2,026,588	1,938,838	1,907,319	1,394,234	1,404,794
Parking	182,707	134,397	134,927	137,939	145,400	154,740	137,451	132,753	129,007
Operating Grants and Contributions	518,395	706,484	168,207	173,335	482,632	178,031	149,268	336,985	65,850
Capital Grants and Contributions	1,195,252	1,320,441	3,400,102	2,619,182	2,537,794	1,481,518	1,678,368	110,623	128,639
Total business-type activities program revenues	52,145,807	55,056,526	53,416,567	49,163,523	46,584,574	41,048,830	39,498,763	33,575,559	32,633,666
Total primary government program revenues	\$57,059,918	\$60,424,624	\$59,884,365	\$55,077,543	\$53,181,855	\$47,180,527	\$47,418,865	\$36,630,573	\$35,334,967

Schedule 2
Borough of Chambersburg, PA
Changes in Net Assets (Continued)
Last Nine Years
(accrual basis of accounting)

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Net (Expense)/Revenue									
Governmental Activities:	(\$9,356,386)	(\$8,320,436)	(\$6,177,846)	(\$5,712,280)	(\$4,261,730)	(\$4,600,736)	(\$902,311)	(\$6,063,799)	(\$6,210,758)
Business - Type activities	828,005	6,846,844	857,990	1,168,087	10,485,134	3,739,709	6,913,998	95,641	(400,710)
Total business-type activities net expense	(8,528,381)	(1,473,592)	(5,319,856)	(4,544,193)	6,223,404	(861,027)	6,011,687	(5,968,158)	(6,611,468)
General Revenues and Other Changes in Net Assets									
Governmental Activities:									
Taxes									
Property taxes	3,797,204	3,732,778	3,710,125	3,627,868	3,486,845	2,810,388	2,731,777	2,656,031	1,887,536
Real estate transfer taxes	265,172	240,954	272,005	540,465	816,051	674,435	718,074	535,193	292,501
Earned Income taxes	1,561,233	1,524,001	1,390,053	1,907,032	1,568,769	1,629,180	1,428,130	1,052,001	1,468,683
Local services tax	744,131	757,564	860,057	775,600	1,165,990	1,111,662	875,067		
Occupation privilege tax								113,974	107,555
Payments in lieu of taxes	14,213	13,408	12,616	11,682	10,565	10,452	5,549	9,897	11,038
Gain on sale of assets							287	698,566	
Unrestricted contributions and grants				22,816	3,926	26,935	99,584	8,903	3,096
Investment earnings	40,144	60,048	181,223	404,894	518,979	437,046	245,268	112,490	85,591
Miscellaneous income	51,117	24,360	57,152	36,279	125,626	32,651			107,949
Transfers	1,997,019	1,172,220	1,705,586	1,562,682	1,117,180	1,047,915	(343,963)	1,326,605	1,528,990
Total governmental activities	8,470,233	7,525,333	8,188,817	8,889,318	8,813,931	7,780,664	5,759,773	6,513,660	5,492,939
Business - Type activities									
Investment earnings	125,701	187,285	358,101	969,639	1,180,310	951,240	544,724	300,121	470,996
Miscellaneous income	103,241	124,596	148,965	190,867	217,957	104,600		28,862	134,991
Transfers	(1,997,019)	(1,172,220)	(1,705,586)	(1,562,682)	(1,117,180)	(1,047,912)	343,963	(1,326,605)	(1,528,990)
Extraordinary Items						(316,751)			
Total business-type activities	(1,768,077)	(860,339)	(1,198,520)	(402,176)	281,087	(308,823)	888,687	(997,622)	(923,003)
Total primary government	6,702,156	6,664,994	6,990,297	8,487,142	9,095,018	7,471,841	6,648,460	5,516,038	4,569,936
Change in Net Assets									
Governmental Activities:	(886,153)	(795,103)	2,010,971	3,177,038	4,552,201	3,179,928	4,857,462	449,861	(717,819)
Business - Type activities	(940,072)	5,986,505	(340,530)	765,911	10,766,221	3,430,886	7,802,685	(901,981)	(1,323,713)
Total primary government change in net assets	(\$1,826,225)	\$5,191,402	\$1,670,441	\$3,942,949	\$15,318,422	\$6,610,814	\$12,660,147	(\$452,120)	(\$2,041,532)

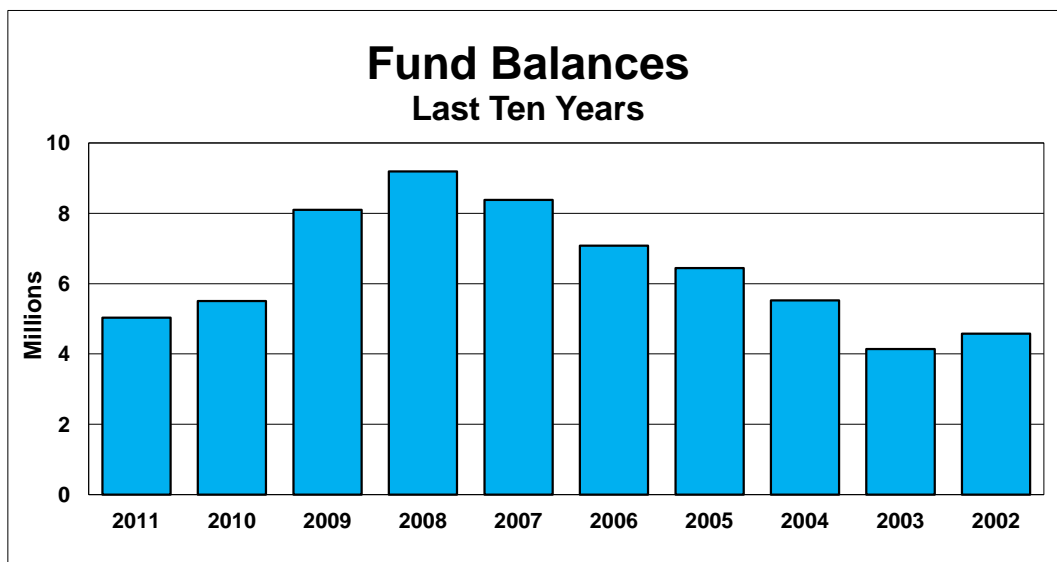
As per GASB statement number 44, we are reporting government - wide information retroactively to 2003, which is the year of implementation of GASB statement number 34.

Schedule 3
Borough of Chambersburg, PA
Fund Balances, Governmental Funds
Last Ten Years
(modified accrual basis of accounting)

	2011	2010	2009	2008
General Fund				
Unassigned	\$1,259,687	\$ 0	\$ 0	\$ 0
Reserved	0	0	0	0
Unreserved	0	1,375,034	2,139,230	3,022,011
Total general fund	0	1,375,034	2,139,230	3,022,011
All Other Governmental Funds				
Reserved	0	583,627	506,093	439,688
Unreserved, reported in:				
Special revenue funds	0	860,642	1,096,594	858,329
Capital reserve funds	0	2,688,148	4,359,108	4,871,296
Liquid FuelsTax Fund	0	0	0	0
Nonspendable for lg trm receivables	249,133	0	0	0
Restricted	3,520,628	0	0	0
Total all other governmental funds	3,769,761	4,132,417	5,961,795	6,169,313
Total Governmental Funds	\$3,769,761	\$5,507,451	\$8,101,025	\$9,191,324

Fund balance reporting as presented by GASB 54 was implemented during 2011. Prior year amounts have not been restated and are shown based on the fund balance classifications as presented by GASB Standards prior to the implementation of GASB 54.

2007	2006	2005	2004	2003	2002
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
0	0	51,625	0	0	0
3,132,235	3,002,526	2,444,085	1,780,615	1,270,767	1,744,610
3,132,235	3,002,526	2,495,710	1,780,615	1,270,767	1,744,610
482,736	334,814	438,199	3,534,247	2,631,946	2,609,362
455,558	89,893	234,642	0	0	223,878
4,309,406	3,647,518	3,271,894	0	0	0
0	0	0	211,065	234,484	0
0	0	0	0	0	0
0	0	0	0	0	0
5,247,700	4,072,225	3,944,735	3,745,312	2,866,430	2,833,240
\$8,379,935	\$7,074,751	\$6,440,445	\$5,525,927	\$4,137,197	\$4,577,850



Schedule 4
Borough of Chambersburg, PA
Changes in Fund Balances, Governmental Funds
Last Ten Years
(modified accrual basis of accounting)

	2011	2010	2009	2008
REVENUES				
Real estate taxes	\$3,754,875	\$3,732,778	\$3,710,125	\$3,579,097
Local enabling taxes	2,602,256	2,620,238	2,438,571	3,115,435
Licenses and permits	320,776	357,550	329,480	314,841
Fines and forfeits	122,283	130,940	127,416	147,943
Interest and rents	22,777	37,461	130,960	304,813
Intergovernmental revenue	2,418,840	2,045,106	1,854,862	2,203,624
Program income	0	0	0	0
Departmental charges for service	1,638,809	1,792,542	1,551,711	1,533,643
Miscellaneous	297,500	212,953	217,277	225,042
Public contributions	134,832	79,094	392,826	767,176
<i>Total revenues</i>	11,312,948	11,008,662	10,753,228	12,191,614
EXPENDITURES				
Current				
General and administrative	1,027,258	1,150,564	936,903	900,500
Public safety				
Police	4,230,668	4,597,965	4,105,028	4,007,937
Fire	2,412,176	2,056,357	1,790,115	1,768,874
Fire code	0	0	0	0
Building regulation, planning, and zoning	537,731	455,054	371,105	424,173
General health and ambulance service	1,053,206	1,184,088	1,086,075	995,078
Public service				
Highway	1,447,497	2,107,854	2,168,345	1,330,447
Parking, traffic control, and transit system	476,187	990,662	684,238	448,458
Street lighting	0	0	0	0
Airport	0	0	0	0
Parks and recreation	1,555,752	1,803,470	1,394,860	1,493,780
Community Development	568,877	487,577	559,625	1,198,910
Capital projects	0	0	0	0
Housing rehabilitation grants/loans	0	0	0	0
Miscellaneous	79,599	114,803	102,223	95,068
Debt service:				
Principal Retirement	0	0	0	0
Interest and Fiscal Charges	0	0	0	0
<i>Total expenditures</i>	13,388,951	14,948,394	13,198,517	12,663,225
<i>Excess (deficiency) of revenues over expenditures</i>	(2,076,003)	(3,939,732)	(2,445,289)	(471,611)
OTHER FINANCING SOURCES (Uses)				
Proceeds from sale of assets	0	0	0	0
Refunds of prior yr's expenditure	0	0	0	0
Interfund transfers in (out)	1,598,000	1,346,158	1,330,307	1,283,000
<i>Total other financing sources (uses)</i>	1,598,000	1,346,158	1,330,307	1,283,000
<i>Net Change in Fund Balances sources over expenditures and other uses</i>	(\$478,003)	(\$2,593,574)	(\$1,114,982)	\$811,389
Debt service as a percentage of non-capital expenditures	00.0%	00.0%	00.0%	00.0%
Debt service as a percentage of total expenditures	0.000%	0.000%	0.000%	0.000%

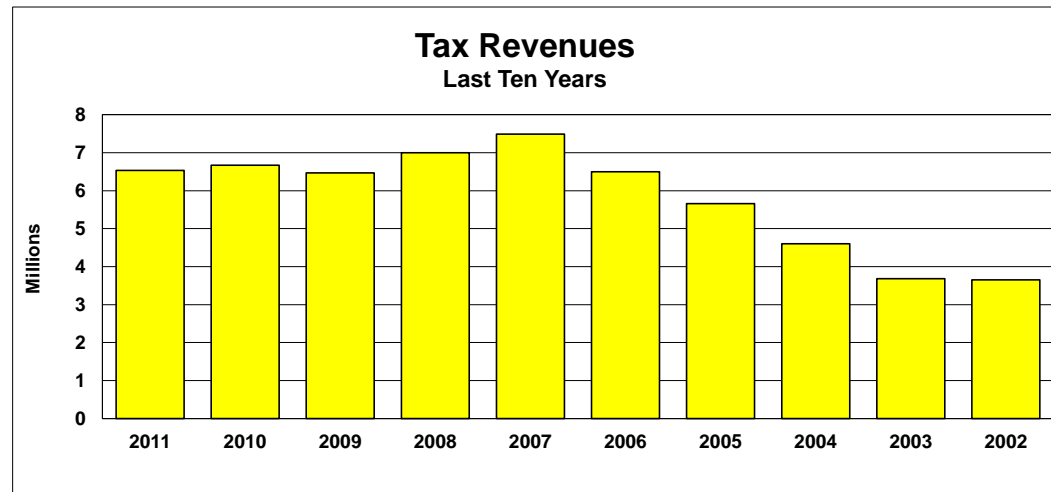
2007	2006	2005	2004	2003	2002
\$3,496,353	\$2,812,617	\$2,699,852	\$2,652,016	\$1,881,006	\$1,855,932
3,795,794	3,378,559	2,990,956	1,924,194	1,605,864	1,586,560
283,832	327,849	12,216	11,708	34,513	35,484
134,912	124,607	104,554	105,994	88,254	104,470
433,095	340,051	169,742	89,142	92,430	173,062
4,128,114	2,963,293	5,390,700	1,441,099	1,108,781	2,174,208
0	0	34,413	25,307	22,358	23,096
1,609,239	1,429,528	1,257,871	1,149,657	1,138,276	1,098,262
286,146	406,735	333,743	297,662	361,831	386,150
0	0	99,584	8,903	3,096	3,291
14,167,485	11,783,239	13,093,631	7,705,682	6,336,409	7,440,515
885,772	888,809	776,287	670,380	745,387	585,697
3,998,185	3,745,351	3,273,532	3,005,234	2,864,984	2,507,338
1,804,011	1,703,609	1,369,481	1,250,482	1,211,412	966,566
0	0	93,158	86,156	33,244	30,948
454,234	359,499	295,959	318,144	306,258	316,259
770,771	798,504	771,723	709,344	783,605	654,624
962,915	2,553,405	2,845,568	918,701	899,830	504,055
476,549	718,504	186,535	194,161	304,996	126,852
0	0	189,927	146,879	171,531	113,357
0	0	0	12,018	47,246	19,276
1,189,479	1,058,650	1,668,362	1,050,717	1,024,020	2,058,250
2,765,619	661,039	0	0	0	0
0	0	0	0	0	524,743
0	0	124,857	63,373	89,548	216,793
638,818	332,789	271,288	330,588	331,284	228,698
0	0	0	0	0	0
0	0	0	0	0	0
13,946,353	12,820,159	11,866,677	8,756,177	8,813,345	8,853,456
221,132	(1,036,920)	1,226,954	(1,050,495)	(2,476,936)	(1,412,941)
0	0	0	790,084	0	0
0	0	0	0	0	0
1,084,052	1,671,226	(312,436)	1,419,435	1,810,283	1,587,885
1,084,052	1,671,226	(312,436)	2,209,519	1,810,283	1,587,885
\$1,305,184	\$634,306	\$914,518	\$1,159,024	(\$666,653)	\$174,944
00.0%	00.0%	00.0%	00.0%	00.0%	00.0%
0.000%	0.000%	0.000%	0.000%	0.000%	0.000%

Schedule 5
Borough of Chambersburg, PA
Program Revenues by Function
Last Nine Years
(accrual basis of accounting)

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Function/Program									
Governmental activities:									
General government	\$1,297,380	\$2,029,383	\$635,089	\$2,513,514	\$3,764,057	\$1,399,348	\$1,000,257	\$761,020	\$566,667
Public Safety	2,095,069	2,190,353	1,937,743	2,016,269	1,364,935	1,655,801	995,819	954,758	997,471
Public Services	4,860	261,626	2,870,251	532,278	1,015,251	2,180,286	4,740,355	343,978	344,479
Parks and recreation	675,646	413,090	425,909	539,959	422,506	393,682	347,757	312,298	314,206
Community development	841,156	473,646	598,806	312,000	30,532	502,580	835,914	682,960	478,478
Subtotal governmental activities	4,914,111	5,368,098	6,467,798	5,914,020	6,597,281	6,131,697	7,920,102	3,055,014	2,701,301
Business-type activities									
Electric	32,517,943	35,088,796	32,316,324	26,568,799	23,787,570	20,634,722	17,714,633	16,639,896	17,341,849
Gas	7,913,084	8,405,864	9,488,238	11,149,104	10,129,533	10,496,579	11,707,046	9,109,242	8,475,849
Water	3,174,372	4,022,392	4,420,697	4,273,076	4,407,194	3,759,890	3,903,315	2,870,600	2,513,010
Sewer	6,235,990	5,243,703	4,958,834	4,919,105	6,050,383	4,025,793	4,092,000	3,340,542	2,735,592
Sanitation	2,112,945	2,153,694	2,095,168	2,112,950	2,062,631	1,974,758	1,942,027	1,477,450	1,437,698
Parking	191,473	142,077	137,306	140,489	147,263	157,088	139,742	137,829	129,668
Subtotal business type activities	52,145,807	55,056,526	53,416,567	49,163,523	46,584,574	41,048,830	39,498,763	33,575,559	32,633,666
<i>Total primary government</i>	<i>\$57,059,918</i>	<i>\$60,424,624</i>	<i>\$59,884,365</i>	<i>\$55,077,543</i>	<i>\$53,181,855</i>	<i>\$47,180,527</i>	<i>\$47,418,865</i>	<i>\$36,630,573</i>	<i>\$35,334,967</i>

Schedule 6
Borough of Chambersburg
Tax Revenues by Source, Governmental Funds
Last Ten Years
(modified accrual basis of accounting)

Fiscal Year	Real Estate	Real Estate Transfer	Earned Income	Occupational Privilege	Local Services Tax	Cable TV Franchise Fees	Payments in Lieu of Taxes	Total
2011	\$3,740,662	\$265,172	\$1,499,019		\$702,064	\$313,867	\$14,213	\$6,534,997
2010	3,702,670	240,954	1,638,419		757,564	315,038	13,408	6,668,053
2009	3,690,751	272,005	1,313,267		860,057	319,990	12,616	6,468,686
2008	3,579,097	540,465	1,787,688		775,600	302,892	11,682	6,997,424
2007	3,496,353	816,051	1,728,188		1,165,990	269,553	10,565	7,486,700
2006	2,812,617	674,435	1,582,009		1,111,662	308,267	10,452	6,499,442
2005 (1)	2,699,853	718,074	1,148,766		875,067	209,203	5,549	5,656,512
2004	2,652,016	535,173	1,085,130	113,974		206,943	9,897	4,603,133
2003	1,881,006	292,501	1,194,770	107,555		193,935	11,038	3,680,805
2002	1,855,932	286,133	1,187,482	112,945		201,313	8,721	3,652,526



(1) Beginning in 2005, occupational privilege tax (OPT) was eliminated and replaced with emergency and municipal services tax (EMST)/local services tax
Source: Borough of Chambersburg Finance Department

Revenue Capacity

These Schedules contain trend information to help the reader assess the Borough's most significant local revenue source, the property tax. These schedules include:

Property Tax Rates – Direct and Overlapping Governments	Schedule 7
Assessed Value and Actual Value of Taxable Property	Schedule 8
Principal Taxpayers	Schedule 9
Property Tax levies and Collections	Schedule 10
Municipal Earned Income Tax Revenue Base and Collections	Schedule 11
Earned Income Tax Statistics	Schedule 12

Schedule 7
 Borough of Chambersburg, PA
 Property Tax Rates - Direct and Overlapping Governments
 Last Ten Years

	Direct Debt (Operating Mill Rate)	<-----Overlapping Debt----->		
Tax Year	Borough of Chambersburg	Chambersburg Area Sch Dist	Franklin County	Franklin County Library
2011	20.00	92.76	25.15	0.8
2010	20.00	89.62	25.15	0.8
2009	20.00	84.98	24.65	0.8
2008	20.00	80.98	21.95	0.8
2007	20.00	76.91	21.75	0.6
2006	17.00	70.68	21.75	0.6
2005	17.00	67.00	20.75	0.6
2004	12.20	62.53	16.75	0.6
2003	12.20	58.33	14.75	0.6
2002	12.20	56.79	14.75	0.6

Sources: Borough of Chambersburg Comprehensive Annual Report
 Chambersburg Area School District Annual Financial Report
 Franklin County Tax Assessment Office

Schedule 8
Borough of Chambersburg, PA
Assessed Value and Actual Value of Taxable Property
Last Ten Years

Fiscal Year Ended December 31,	Agricultural Property	Residential Property	Commercial Property	Industrial Property	Vacant Property	Tax Exempt Property	Total Estimated Assessed Value	Total Taxable Assessed Value	Chambersburg Municipal Millage Rate
2011	\$267,630	\$98,098,920	\$81,524,550	\$10,303,210	\$872,740	\$51,726,140	\$242,793,190	\$191,067,050	20.00
2010	267,630	96,846,110	78,935,600	10,437,980	898,810	51,559,840	238,945,970	187,386,130	20.00
2009	267,630	95,560,690	80,191,190	9,709,350	918,480	51,027,070	237,674,410	186,647,340	20.00
2008	267,630	92,976,990	75,930,440	10,991,900	947,560	50,789,290	231,903,810	181,114,520	20.00
2007	321,620	90,319,950	69,027,550	10,645,490	1,151,680	50,764,330	222,230,620	171,466,290	20.00
2006	331,460	87,762,230	64,269,630	9,698,490	2,111,770	50,389,070	214,562,650	164,173,580	17.00
2005	319,440	85,328,290	63,225,610	9,698,490	2,025,380	50,528,540	211,125,750	160,597,210	17.00
2004	388,360	83,479,750	61,341,400	9,730,290	1,864,130	51,884,030	208,687,960	156,803,930	12.20
2003	389,190	82,231,740	61,670,330	10,200,230	1,816,060	50,489,080	206,796,630	156,307,550	12.20
2002	425,700	80,787,460	61,169,280	10,274,500	1,711,990	49,861,470	204,230,400	154,368,930	12.20

Sources: Franklin County, PA Tax Assessor's office
Borough of Chambersburg Comprehensive Annual Financial Report

Schedule 9
 Borough of Chambersburg, PA
 Principal Taxpayers
 12/31/2011 and 12/31/2002

December 31, 2011

Taxpayer	Estimated Actual Values of Real Property (1)	Rank	Percentage of Assessed Valuation
Chbg Health Srv/Chbg Hospital	\$12,578,910	1	6.58%
Menno-Haven, Inc	5,485,100	2	2.87%
Chambersburg Crossing LP	5,043,000	3	2.64%
American Real Estate	2,340,650	4	1.23%
Wilsey/Holsum-Ventura Food LLC	2,219,730	5	1.16%
ProLogis	1,780,100	6	0.93%
Wayne Avenue LLC	1,628,060	7	0.85%
Chambersburg Cold Storage	1,491,010	8	0.78%
Chbg Area Development Corp	1,353,810	9	0.71%
Tanya K. Nitterhouse	1,333,060	10	0.70%
<hr/>			
Total	\$35,253,430		18.45%
<hr/>			
Total Taxable Assessed Valuation	\$191,067,050		
<hr/>			

December 31, 2002

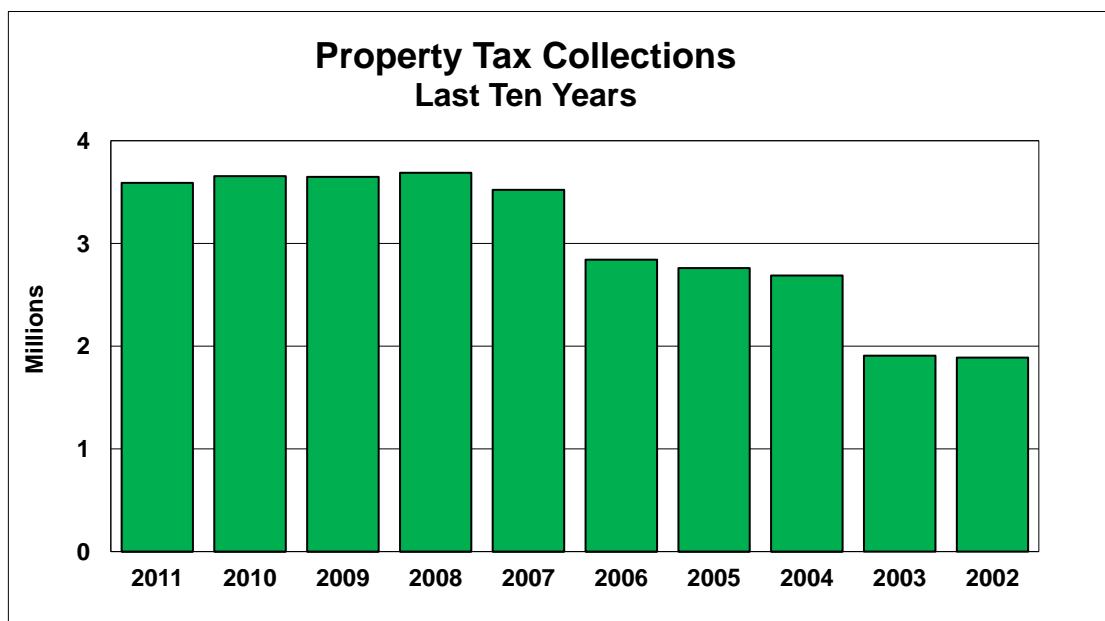
Taxpayer	Estimated Actual Values of Real Property (1)	Rank	Percentage of Assessed Valuation
Menno-Haven, Inc	\$3,890,040	1	2.52%
Chbg Health Srv/Chbg Hospital	3,650,460	2	2.36%
American Real Estate	2,340,650	3	1.52%
Wilsey/Holsum (Ventura)	2,127,500	4	1.38%
Tanya K. Nitterhouse	1,990,660	5	1.29%
Dermody Owen LLC	1,770,950	6	1.15%
Franklin Properties Co	1,556,130	7	1.01%
Mart Limited Partnership	1,516,380	8	0.98%
Chbg Cold Storage	1,491,010	9	0.97%
Chbg Area Development Corp	1,401,470	10	0.91%
<hr/>			
	\$21,735,250		14.08%
<hr/>			
Total Taxable Assessed Valuation	\$154,368,930		
<hr/>			

Sources: Borough of Chambersburg Comprehensive Annual Financial Report
 Franklin County Assessor's Office

(1) As of January 1, 2001, the assessed value on all real property was changed from 40% to 100% of market value.

Schedule 10
Borough of Chambersburg, PA
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended Dec 31,	Taxes Levied for the Fiscal Year	Collections within the Fiscal Year of the Levy		Collections In Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2011	\$3,821,341	\$3,523,898	92.22%	\$64,591	\$3,588,489	93.91%
2010	3,747,723	3,527,832	94.13%	126,016	3,653,848	97.50%
2009	3,732,947	3,521,879	94.35%	183,175	3,705,054	99.25%
2008	3,691,170	3,449,448	93.45%	241,207	3,690,655	99.99%
2007 (2)	3,524,433	3,327,598	94.42%	196,595	3,524,193	99.99%
2006	2,842,065	2,689,089	94.62%	153,011	2,842,100	100.00%
2005	2,760,042	2,611,898	94.63%	148,223	2,760,121	100.00%
2004 (1)	2,685,963	2,546,557	94.81%	139,405	2,685,962	100.00%
2003	1,908,826	1,811,273	94.89%	97,553	1,908,826	100.00%
2002	1,890,019	1,772,981	93.81%	117,038	1,890,019	100.00%



(1) The borough's property tax mill rate increased from 12.2 to 17.0, an increase of 40%

(2) The borough's property tax mill rate increased from 17.0 to 20.0, an increase of 17.64%

Source: Borough of Chambersburg Finance Department

Schedule 11
 Borough of Chambersburg, PA
 Municipal Earned Income Tax Revenue Base and Collections
 Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year	Tax Rate	Total Earned Income Tax Collected	Refunds	Net Earned Income Tax Collected
2011	1.00%	\$1,535,175	\$36,156	\$1,499,019
2010	1.00%	1,678,709	40,290	1,638,419
2009	1.00%	1,351,772	38,505	1,313,267
2008	1.00%	1,822,101	34,413	1,787,688
2007	1.00%	1,769,463	41,275	1,728,188
2006	1.00%	1,589,052	38,543	1,550,509
2005	1.00%	1,359,818	31,052	1,328,766
2004	1.00%	1,258,254	20,624	1,237,630
2003	1.00%	1,286,751	18,481	1,268,270
2002	1.00%	1,208,561	21,079	1,187,482

Source: Franklin County Area Tax Bureau

Schedule 12
Borough of Chambersburg, PA
Earned Income Tax Statistics
Last Ten Years

<u>Number of tax filers</u>										
Income Range	2011 (1)	2010	2009	2008	2007	2006	2005	2004	2003	2002
> \$1,000,000		0	0	0	1	0	0	0	0	0
\$500,000 - \$999,999		12	17	16	16	15	12	11	7	7
\$200,000 - \$499,000		65	45	44	43	34	32	34	33	31
\$100,000 - \$199,000		198	163	148	140	132	116	101	81	65
\$50,000 - \$99,000		1,442	1,216	1,148	1,099	1,008	924	853	779	729
<\$50,000		6,445	6,941	7,455	7,079	7,344	7,377	7,353	7,475	7,643
Total		8,162	8,382	8,811	8,378	8,533	8,461	8,352	8,375	8,475

<u>% of total earned income taxes paid</u>										
Income Range										
> \$1,000,000		0.00%	0.00%	0.00%	0.41%	0.00%	0.00%	0.00%	0.00%	0.00%
\$500,000 - \$999,999		2.95%	3.76%	3.54%	3.51%	3.42%	3.11%	2.67%	1.70%	1.74%
\$200,000 - \$499,000		6.96%	4.98%	4.88%	5.05%	3.86%	3.91%	4.16%	4.45%	4.01%
\$100,000 - \$199,000		9.15%	7.80%	7.10%	6.87%	6.64%	6.06%	5.63%	4.74%	4.14%
\$50,000 - \$99,000		33.05%	29.12%	27.73%	27.18%	25.64%	24.76%	23.78%	22.75%	21.68%
<\$50,000		47.89%	54.34%	56.75%	56.98%	60.44%	62.16%	63.76%	66.36%	68.43%
Total		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

<u>Total Personal Income</u>	\$286,781,775	\$273,204,270	\$270,954,117	\$263,147,886	\$255,114,215	\$243,248,314	\$230,882,085	\$218,802,655	\$215,724,254
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(1) Information for year ended 12/31/2011 not yet available

Source: Franklin County Area Tax Bureau

Debt Capacity

These schedules present information to help the reader assess the affordability of the Borough's current levels of outstanding debt and the Borough's ability to issue additional debt in the future. These schedules include:

Ratios of Outstanding Debt By Type	Schedule 13
Ratios of General Bonded Debt Outstanding	Schedule 14
Legal Debt Margin Information	Schedule 15
Computation of Direct and Overlapping Debt	Schedule 16
Debt Capacity Information – Pledged-Revenue Coverage	Schedule 17

Schedule 13
Borough of Chambersburg
Ratios of Outstanding Debt by Type
Last Ten Years

Governmental Activities (1)		Business Type Activities (1)					
Fiscal Year	General Obligation Bonds	Electric Department General Obligation Bonds	Wastewater Treatment Plant General Obligation Bonds	Water Treatment Plant Water Revenue Notes Payable (2)	Total Primary Government	Percentage of Personal Income	Per Capita
2011	0	\$14,095,208	\$2,364,792	\$2,640,542	\$19,100,542	4.542%	942
2010	0	15,033,600	2,866,400	2,845,376	20,745,376	5.309%	1,024
2009	0	15,941,300	3,353,700	2,370,233	21,665,233	6.257%	1,206
2008	0	16,355,000	3,955,000	2,338,177	22,648,177	6.541%	1,261
2007	0	17,240,000	4,340,000	2,556,619	24,136,619	6.971%	1,344
2006	0	17,550,000	4,715,000	2,732,990	24,997,990	7.220%	1,392
2005	0	18,355,000	4,720,000	4,200,000	27,275,000	7.877%	1,519
2004	0	19,140,000	5,440,000	4,371,675	28,951,675	8.361%	1,612
2003	0	19,900,000	5,300,000	4,400,000	29,600,000	8.549%	1,648
2002	0	19,900,000	5,575,000	4,400,000	29,875,000	8.628%	1,663

(1) Details regarding the Borough's outstanding debt can be found in the Note 5 in the current financial statements.

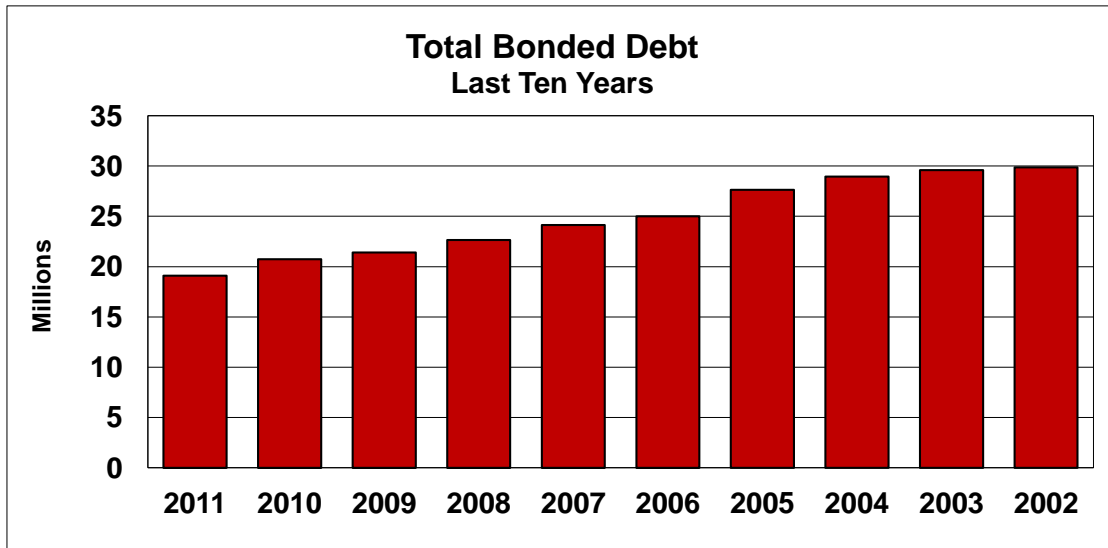
(2) Various water projects financed via the Commonwealth of Pennsylvania's Pennvest loan program.

Source: Borough of Chambersburg Finance Department

Schedule 14
 Borough of Chambersburg, PA
 Ratios of General Bonded Debt Outstanding
 Last Ten Years

General Bonded Debt Outstanding

Fiscal Year	Net Non-electoral debt	Lease rental debt	Total Primary Government	% of Assessed Valuation	Debt per Capita
2011	\$19,100,542	\$0	\$19,100,542	10.00%	\$942
2010	20,745,376	0	20,745,376	11.07%	1,024
2009	21,409,547	0	21,409,547	11.47%	1,192
2008	22,648,177	0	22,648,177	12.50%	1,261
2007	24,136,619	0	24,136,619	14.08%	1,344
2006	24,997,990	0	24,997,990	15.23%	1,392
2005	27,634,228	0	27,634,228	18.35%	1,539
2004	28,951,675	0	28,951,675	18.46%	1,612
2003	29,600,000	0	29,600,000	18.94%	1,648
2002	29,875,000	0	29,875,000	19.35%	1,663



Source: Borough of Chambersburg Finance Department

Schedule 15
Borough of Chambersburg, PA
Legal Debt Margin Information
Last Ten Years

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General Bonded Debt Outstanding

Fiscal Year	Three year average revenue borrowing base	Legal debt limit	Total Debt Applicable to limit	Legal Debt margin (1)	Legal Debt margin %
2011	\$64,779,959	\$161,949,898	\$19,100,542	\$142,849,356	88.21%
2010	62,787,531	156,968,828	20,745,376	136,223,452	86.78%
2009	60,298,760	150,746,900	21,665,233	129,081,667	85.63%
2008	57,735,693	144,339,233	22,648,254	121,690,979	84.31%
2007	54,371,026	135,927,564	24,136,619	111,790,945	82.24%
2006	49,400,865	123,502,163	24,997,990	98,504,173	79.76%
2005	44,163,564	110,408,911	27,634,228	82,774,683	74.97%
2004	40,676,773	101,691,932	28,951,675	72,740,257	71.53%
2003	38,208,010	95,520,026	29,600,000	65,920,026	69.01%
2002	37,361,931	93,404,827	29,875,000	63,529,827	68.02%

(1) Legal Debt Margin: (12/31/2011)

a	Average revenues past 3 yrs	64,779,959 (\$194,339,878) / 3
b	Legal debt limit (2.5 time average rev)	161,949,898
c	Debt outstanding @ 12/31/2011	(19,100,542)

Legal Debt Margin (b-c) **\$142,849,356**

Source: Borough of Chambersburg Finance Department

Schedule 16
 Borough of Chambersburg, PA
 Computation of Direct and Overlapping Debt
 December 31, 2011

Jurisdiction	Total Debt Outstanding	Estimated Percentage Applicable (a)	Amount Applicable To Borough of Chbg
Direct			
Borough of Chambersburg (Governmental Activities)	0		0
Overlapping			
Chambersburg School Dist	\$137,729,300	29.0627%	\$40,027,875
County of Franklin	44,613,500	13.9488%	6,223,052
<i>Total Overlapping Debt</i>	182,342,800		46,250,927
Total	\$182,342,800		\$46,250,927

Notes: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the borough. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the borough. This process recognizes that, when considering the borough's ability to issue and repay long-term debt, the entire burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.

(a) The percentage of overlapping debt applicable is estimated using taxable property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable value that is within the borough's boundaries and dividing it by each unit's total taxable value.

Sources: Borough of Chambersburg Comprehensive Annual Financial Report
 Franklin County Fiscal Department
 Chambersburg Area School District

Schedule 17
 Borough of Chambersburg
 Debt Capacity Information - Pledged-Revenue Coverage
 Last Ten Years

Water Revenue Loan Payable (1)

Fiscal Year	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2011	\$3,054,195	\$2,800,078	\$254,117	\$204,834	\$91,121	0.86
2010	3,169,299	2,580,434	588,865	213,664	84,117	1.98
2009	3,375,869	2,831,476	544,393	223,025	60,540	1.92
2008	3,469,626	2,674,069	795,557	218,753	61,061	2.84
2007	3,879,178	2,673,401	1,205,777	213,118	66,696	4.31
2006	3,472,734	2,495,541	977,193	218,998	60,816	3.49
2005	3,107,143	2,440,826	666,317	213,595	66,220	2.38
2004	2,752,040	2,346,858	405,182	42,531	109,955	2.66
2003	2,449,629	1,967,482	482,147	0	110,044	4.38
2002	2,374,647	2,174,670	199,977	0	77,948	2.57

Note: Details regarding the Borough's outstanding debt can be found in the Note 5 in the current financial statements.

(1) Water improvement project loan from the Pennsylvania Infrastructure Investment Authority (Pennvest).

Source: Borough of Chambersburg Finance Department

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Borough's financial activities take place. These schedules include:

Demographic and Economic Statistics	Schedule 18
Principal Employers	Schedule 19

Schedule 18
 Borough of Chambersburg, PA
 Demographic and Economic Statistics
 Last Ten Years

Fiscal Year	Population (2)	Per Capita Personal Income (1)	Per Capita Household Income (1)	Median Household Income (1)	Median Age (2)
2011	20,268	\$20,750	\$48,348	\$38,246	37.1
2010	20,268	20,750	48,348	38,246	37.1
2009	17,862	19,278	41,641	32,336	40
2008	17,862	19,278	41,641	32,336	40
2007	17,862	19,278	41,641	32,336	40
2006	17,862	19,278	41,641	32,336	40
2005	17,862	19,278	41,641	32,336	40
2004	17,862	19,278	41,641	32,336	40
2003	17,862	19,278	41,641	32,336	40
2002	17,862	19,278	41,641	32,336	40

Educational Attainment Bachelor's Degree or Higher (1)	School Enrollment (1)	Unemployment Rate (1)	Median Value of Residential Property (1)	Total Assessed Property Value (3)	Total Personal Income (4)
21.00%	4,713	8.60%	\$161,000	\$191,067,050	(5)
21.00%	4,713	8.60%	161,000	187,386,130	286,781,775
17.90%	3,635	3.90%	86,500	186,647,340	273,204,270
17.90%	3,635	3.90%	86,500	181,114,520	270,954,117
17.90%	3,635	3.90%	86,500	171,466,290	263,147,886
17.90%	3,635	3.90%	86,500	164,173,580	255,114,215
17.90%	3,635	3.90%	86,500	160,597,230	243,248,314
17.90%	3,635	3.90%	86,500	156,803,930	230,882,085
17.90%	3,635	3.90%	86,500	156,307,550	218,802,655
17.90%	3,635	3.90%	86,500	154,368,930	215,724,254

- (1) American Fact Finder (3-year estimate)
(2) United States Census Bureau
(3) Franklin County Assessor's Office
(4) Franklin County Area Tax Bureau
(5) Information for year ended 12/31/2011 not yet available

Schedule 19
Borough of Chambersburg, PA
Principal Employers
Current Year and Nine Years Ago

2011				2002		
Employer	Employees	Rank	Percentage of Total Borough Employment	Employees	Rank	Percentage of Total Borough Employment
Summit Health Services	2,904	1	15.22%	1,434	1	6.27%
Chambersburg School District	1,031	2	5.40%	971	2	4.25%
County of Franklin	900	3	4.72%	871	3	3.81%
Menno Haven, Inc	562	4	2.94%	554	4	2.42%
Ventura Foods	400	5	2.10%	291	6	1.27%
T.B. Woods, Inc	313	6	1.64%	-----		-----
Staples Direct	300	7	1.57%	324	5	1.42%
Farmers & Merchants Trust Co.	285	8	1.49%	205	7	0.90%
K-Mart Regional Specialty Center	263	9	1.38%	-----		-----
Borough of Chambersburg	194	10	1.02%	187	8	0.82%
Knouse Foods	180		0.94%	181	9	0.79%
Patriot Federal Credit Union	130		0.68%	122	10	0.53%
Public Opinion Newspaper	76		0.40%	-----		-----
Nitterhouse Masonry Products	55		0.29%	82		0.36%
Total	7,593		39.79%	5,222		22.85%
Total Employees	19,085 (1)			22,855		

(1) Estimated by Franklin County Area Tax Bureau W-2 Forms Filed

Source: Franklin County Area Development Corp.
Franklin County Area Tax Bureau

Operating Information

These schedules contain service information and infrastructure data to help the reader understand how the information in the municipality's financial report relates to the services the municipality provides and the activities it performs. These schedules include:

Full-time Equivalent Municipal Employees by Function/Program	Schedule 20
Operating Indicators by Function/Program	Schedule 21
Capital Asset Statistics by Function/Program	Schedule 22

Schedule 20
Borough of Chambersburg, PA
Full-Time Equivalent Municipal Employees by Function/Program
Last Ten Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Function/program										
General Government:										
Administration	4	4	5	4	4	4	4	4	4	4
MIS	5	5	5	5	5	5	5	4	4	4
Finance	22	22	22	22	22	22	22	22	22	24
Public Information	0	0	0	0	0	0	0	0	0	0
Community Development:										
Economic Develop/Planning	2	2	2	2	2	1	1	1	1	1
Inspections	2	4	4	4	4	4	4	5	6	6
Public Works:										
Administration	2	2	2	2	2	2	2	2	2	2
Maintenance/Labor	24	26	26	25	25	22	22	22	24	24
Human Services:										
	0	0	0	0	0	0	0	0	0	0
Public Safety:										
Police Officers	31	33	33	33	33	30	30	30	30	29
Police Civilians	3	4	4	4	4	4	4	4	4	4
Fire	21	21	21	22	21	21	18	18	18	21
Fire Civilians	3	3	3	3	3	3	3	3	2	2
911	0	0	0	0	0	0	0	0	0	0
Recreation:										
Management	7	7	5	5	5	5	5	5	5	5
Seasonal	0	0	0	0	0	0	0	0	0	0
Pool	0	0	0	0	0	0	0	0	0	0
Tennis	0	0	0	0	0	0	0	0	0	0
Park	0	0	0	0	0	0	0	0	0	0
Utilities (5):										
Administration	13	13	13	17	14	14	14	14	14	14
Maintenance/Operations										
Electric Department	18	18	18	19	19	19	19	17	16	16
Gas Department	13	13	13	8	8	8	8	8	8	7
Water Department	14	14	14	11	11	11	11	11	10	10
Wastewater Treat. Plant	9	9	9	15	15	15	15	14	13	13
Parking Department	1	1	1	1	1	1	1	1	1	1
Totals	194	201	200	202	198	191	188	185	184	187

Source: Borough of Chambersburg Human Resources Department

Schedule 21
Borough of Chambersburg, PA
Operating Indicators by Function/Program
Last Ten Years

	2011	2010	2009	2008
Function/program				
General Government:				
Lien Letter & Tax Certification Requests	91	87	73	55
Community Development				
Building Permits Issued	351	342	337	398
Estimated Value of Construction	\$14,890,487	\$75,907,998	\$19,856,490	\$3,798,670
Occupancy Permits Issued	54	70	91	133
Number of Planning Commission Agenda Items	14	15	34	33
Public Works:				
Roads Resurfaced (linear feet)	9,605	2,725	4,500	11,904
Roads Reconstructed (linear feet)	0	6,700	2,550	0
Tons of Snow Melting Salt Used	595	675	336	420
Recreation:				
Pool Attendance	34,111	28,783	30,700	32,714
Number of Utilization Events (2)	1,977	2,199	1,714	1,859
Number of Consumers Served	75,265	76,426	69,813	74,431
Number of seasonal programs	151	153	91	82
Police:				
Calls for Service	13,847	13,235	13,439	14,584
Total Arrests	1,567	1,614	1,587	780
Part I Offenses Reported (major offenses)	1,102	1,158	1,260	1,356
Part I Offenses cleared (Percentage)	35.0%	39.0%	40.0%	35.0%
Part II Offenses Reported (Major offenses)	2,079	1,898	1,826	2,053
Part II Offenses cleared (Percentage)	35.0%	36.0%	36.0%	23.0%
DUI Arrests	141	136	112	145
Fire:				
Total Number of Responses	925	892	947	1,068
Responses Involving Loss	5	3	7	5
Structure Fires	32	29	30	20
Volunteer Hours	85,009	86,180	87,190	88,195
False Alarms/False Calls	118	147	148	171
Total Calls For Assistance	3,529	3,680	3,626	4,461
Utilities:				
<i>Electric Department</i>				
Units Billed (kwh)	299,890,758	297,488,630	283,303,708	301,419,493
Billed Revenue	\$31,751,606	\$34,534,887	\$29,658,637	\$25,122,123
<i>Gas Department</i>				
Units Billed (100 Cu. Ft.)	9,933,703	9,490,142	9,331,406	9,548,283
Billed Revenue	\$8,034,808	\$8,355,397	\$9,546,728	\$10,804,867
<i>Water Department</i>				
Units Billed (10 Cu. Ft.)	13,706,080	14,755,234	14,573,232	14,601,233
Billed Revenue	\$2,842,906	\$2,903,732	\$2,855,138	\$2,856,052
<i>Wastewater Treatment Plant</i>				
Units Billed (10 Cu. Ft.)	24,620,125	23,970,170	23,577,112	24,492,922
Billed Revenue	\$4,917,654	\$4,386,674	\$3,805,662	\$3,699,207
<i>Sanitation Department</i>				
Units Billed (Cu. Yds.)	146,364	149,709	150,805	157,123
Billed Revenue	\$1,975,707	\$1,989,396	\$1,994,205	\$2,015,815

2007	2006	2005	2004	2003	2002
42	41	45	49	56	49
463	338	277	101	191	221
\$60,752,500	\$55,624,200	\$32,147,498	\$17,768,938	\$18,787,722	\$18,889,459
68	44	53	17	10	6
52	59	62	39	24	44
14,500	28,200	8,900	4,800	11,600	10,300
	2,200	0	5,870	700	600
546	150	100	250	275	125
33,224	34,491	37,513	31,854	33,061	46,586
1,130	2,068	1,936	1,905	1,930	1,634
73,002	79,783	80,030	77,227	80,839	77,540
77	92	86	95	90	90
14,698	14,564	14,298	13,762	12,873	6,998
1,000	978	1,031	1,392	969	665
1,337	1,187	1,020	1,096	922	952
32.2%	27.5%	36.7%	28.6%	26.7%	25.2%
2,042	2,129	1,837	2,045	1,640	1,946
38.5%	36.1%	39.3%	32.1%	31.3%	28.3%
153	151	146	119	75	26
1,216	1,219	1,246	1,037	725	766
3	0	2	5	4	7
31	(1)	19	16	14	
86,342	112,414	87,807	81,905	84,762	135,051
144	205	225	324	241	299
4,769	4,543	4,856	(1)	(1)	(1)
298,904,180	280,162,497	270,674,464	263,990,940	254,497,955	253,386,353
\$22,832,498	\$19,350,942	\$16,909,558	\$16,419,739	\$16,785,427	\$12,761,569
9,263,225	8,764,951	9,408,519	9,778,613	10,084,543	8,708,675
\$9,931,409	\$11,161,166	\$10,926,767	\$8,814,262	\$8,356,282	\$6,998,000
14,666,433	14,922,136	14,738,824	13,881,565	12,989,941	13,100,816
\$2,824,616	\$2,805,748	\$2,590,999	\$2,382,552	\$2,276,402	\$2,286,907
22,945,608	21,063,582	25,142,782	24,349,957	23,162,292	17,330,483
\$3,579,563	\$3,289,890	\$3,375,059	\$3,061,013	\$2,595,252	\$2,269,712
154,436	143,248	139,650	140,090	141,257	139,337
\$1,974,698	\$1,891,367	\$1,856,212	\$1,347,760	\$1,362,011	\$1,346,109

(1) Information not available

(2) Recreation center usage only

Source: Borough of Chambersburg Designated Departments

Schedule 22
Borough of Chambersburg, PA
Capital Asset Statistics by Function/Program
Last Ten Years

	2011	2010	2009	2008
Function/program				
General Government:				
Square Footage Occupied	45,912	45,912	16,571	16,571
Inspection Vehicles	1	2	2	2
Other Departmental Vehicles	5	5	5	5
Public Works:				
Number of Traffic Signals	45	45	45	40
Street Lights	2,163	2,162	2,161	1,500
Vehicles	12	11	11	11
Recreation:				
Number of Parks	16	16	16	16
Acerage of Park Lands	88	88	88	81
Recreation Centers	1	1	1	1
Recreation Center Square Footage	19,975	19,975	20,154	20,154
Tennis Courts	5	5	5	9
Ball Fields	4	4	4	4
Skate Parks	2	2	2	2
Vehicles	3	3	3	3
Public Safety:				
Square Footage of Fire/Ambulance Dept	18,947	18,947	9,526	9,526
Square Footage of Police Department	15,048	15,048	10,726	10,726
Fire Vehicles/Ambulances	12	11	9	9
Police Vehicles	15	15	13	12
Utilities				
<i>Electric Department</i>				
Value of Plant in Service	\$69,529,818	\$68,795,448	\$60,896,827	\$63,374,252
Vehicles	9	9	9	8
<i>Gas Department</i>				
Value of Plant in Service	\$12,395,373	\$12,039,244	\$10,825,895	\$11,053,344
Vehicles	9	10	10	9
<i>Water Department</i>				
Value of Plant in Service	\$28,410,834	\$28,341,731	\$25,690,405	\$26,612,637
Vehicles	7	7	7	7
<i>Wastewater Treatment Department</i>				
Value of Plant in Service	\$42,407,403	\$42,040,874	\$38,313,773	\$39,038,610
Vehicles	6	6	6	6
<i>Sanitation Department</i>				
Value of Plant in Service	\$528,449	\$520,425	\$555,737	\$502,148
Vehicles	10	8	8	8

2007	2006	2005	2004	2003	2002
16,571	16,571	16,571	16,571	16,571	16,571
2	2	2	2	3	3
5	5	5	6	5	6
40	35	35	35	35	35
1,500	1,500	1,500	1,500	1,500	1,500
11	11	11	13	13	12
16	16	14	13	12	12
81	81	78	71	70	70
1	1	1	1	1	1
20,154	20,154	20,154	20,154	20,154	20,154
10	10	12	12	12	12
4	4	5	5	5	5
3	3	3	2	2	3
9,526	9,526	9,526	9,526	9,526	9,526
10,726	10,726	10,726	10,726	10,726	10,726
9	9	10	12	11	11
13	13	13	14	12	11
\$60,902,232	\$57,912,422	\$61,554,987	\$38,721,722	\$38,353,769	\$37,929,660
9	8	8	8	9	8
\$10,752,079	\$10,336,655	\$9,708,207	\$9,145,687	\$8,901,920	\$8,223,042
9	9	7	7	7	7
\$26,063,089	\$25,506,678	\$26,361,379	\$20,567,285	\$1,695,244	\$15,731,162
7	7	7	7	7	7
\$38,578,161	\$36,284,115	\$36,574,119	\$36,087,251	\$36,035,703	\$17,420,031
6	6	6	6	6	6
\$498,893	\$465,795	\$473,423	\$475,825	\$472,381	\$474,481
7	7	8	6	6	6

Source: Borough of Chambersburg Designated Departments



Single Audit Section



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Mayor and Borough Council
Borough of Chambersburg
Chambersburg, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Chambersburg, as of and for the year ended December 31, 2011, which collectively comprise the Borough's basic financial statements, and have issued our report thereon dated June 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Borough of Chambersburg's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough of Chambersburg's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Borough of Chambersburg's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2011-01 to be a material weakness.



To the Mayor and Borough Council
Borough of Chambersburg
Chambersburg, Pennsylvania

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Borough of Chambersburg's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Borough of Chambersburg in a separate letter dated June 25, 2012.

The Borough of Chambersburg's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Borough of Chambersburg's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mayor, and Borough Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
June 25, 2012



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Mayor and Borough Council
Borough of Chambersburg
Chambersburg, Pennsylvania

Compliance

We have audited the Borough of Chambersburg's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Borough of Chambersburg's major federal programs for the year ended December 31, 2011. The Borough of Chambersburg's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Borough of Chambersburg's management. Our responsibility is to express an opinion on the Borough of Chambersburg's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Borough of Chambersburg's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Borough of Chambersburg's compliance with those requirements.

In our opinion, the Borough of Chambersburg complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the Borough of Chambersburg is responsible for establishing and maintaining effective internal control over compliance requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Borough of Chambersburg's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Borough of Chambersburg's internal control over compliance.



To the Mayor and Borough Council
Borough of Chambersburg

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Mayor and Borough Council, others within the entity, and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
June 25, 2012

BOROUGH OF CHAMBERSBURG

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2011

Grantor Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount	Cash Receipts	Modified Accrual Basis Expenditures
U.S. Department of Housing and Urban Development Program:					
<u>Passed-through the PA. Dept. of Community and Economic Development</u>					
Community Development Block Grant	14.228	C000029556	\$ 262,610	\$ 13,766	\$ 13,766
Community Development Block Grant	14.228	C000036981	252,677	15,975	17,091
Community Development Block Grant	14.228	C000046101	258,038	105,803	143,202
Community Development Block Grant	14.228	C000050346	289,742	79,500	182,102
HOME Grant	14.239	C000046786	350,000	80,169	81,539
HOME Grant	14.239	C000050792	350,000	0	77
HOME Grant	14.239	C000050780	50,000	45,988	45,988
HOME Grant	14.239	C000050801	500,000	77,157	77,157
Franklin County Home Grant	14.239	C000026927	350,000	30,414	30,414
Franklin County Home Grant	14.239	C000026927	40,000	0	25,713
Total U.S. Department of HUD				<u>448,772</u>	<u>617,049</u>
U.S. Department of Justice					
Justice Assistance Grant	16.738	2009-SB-B9-2495	55,593	26,910	2,468
Franklin County Justice Assistance Grant	16.738	2009-DJ-BX-0277	21,586	0	4,222
Franklin County Justice Assistance Grant	16.738	2010-DJ-BX-0867	13,592	0	8,534
Total U.S. Department of Justice				<u>26,910</u>	<u>15,224</u>
U.S. Department of Transportation					
<u>Passed-through the PA. Department of Transportation</u>					
Rails to Trails	20.205	89528	330,000	262,945	262,945
Total U.S. Department of Transportation				<u>262,945</u>	<u>262,945</u>
Total Expenditures of Federal Awards				<u>\$ 738,627</u>	<u>\$ 895,218</u>

BOROUGH OF CHAMBERSBURG

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2011

Note 1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the Federal awards program of the Borough of Chambersburg, Pennsylvania. The reporting entity is defined in Note 1 to the Borough's financial statements.

Note 2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Borough's financial statements.

Note 3. Relationship to Financial Statements

Expenditures of Federal Awards are reported in the Borough's Special Revenue financial statements.

Note 4. Federal Awards by CFDA Number

Project Title	CFDA No.	Expenditures	Percent
Community Development Block Grant	14.228	\$ 356,161	39.8%
Rails to Trails Grant	20.205	262,945	29.4%
HOME Grant	14.239	260,888	29.1%
Justice Assistance Grant	16.738	<u>15,224</u>	<u>1.7%</u>
Total federal expenditures		<u>\$ 895,218</u>	<u>100.0%</u>

BOROUGH OF CHAMBERSBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified: X Yes No
- Significant deficiencies identified that are not considered to be material weakness(es)? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major program:

- Material weakness identified? Yes X No
- Significant deficiencies identified that are not considered to be a material weakness(es)? Yes X None Reported

Type of auditor's report issued on compliance for the major program: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? Yes X No

Identification of the major programs:

CFDA Number(s)	Name of Federal Program
14.239	HOME Grant
20.205	Rails to Trails Grant

Dollar threshold used to distinguish between type A and type B programs \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

BOROUGH OF CHAMBERSBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
December 31, 2011

Section II - Financial Statement Findings

A. Material Weaknesses in Internal Control

2011-01 Proper Reconciliation of Pension Accounting

Condition: During 2011, there was an audit adjustment necessary for state pension funding and the municipal contribution to the pension plans that was not properly recorded.

Criteria: All revenues should be reconciled on a regular bases to determine that they are properly recorded.

Cause: A portion of the state pension funding was incorrectly netted against expense in the governmental and proprietary funds and the municipal contribution in the pension plans was incorrectly posted as unrealized gains and losses in the pension funds.

Effect: The financial statements would have been materially misstated, as the revenues were understated and the unrealized gains were overstated by \$ 1.4 million in the pension funds and revenues and expenses were understated by \$ 111,000 in the governmental and proprietary funds.

Recommendation: We recommend that all significant revenues received by the Borough be reviewed by the finance department by comparing revenues to the previous year as well as the current year budget. This should include a reconciliation of revenues and unrealized gains and losses in the pension funds. This will help ensure that these items are properly reported.

Response: The proper accounting for the receipt of state pension funds will be verified for accuracy at the time of posting into the general ledger accounts and the subsequent monthly "closing" of the general ledger. This will be in addition to the verification of all pension related expenditures and transfers that will technically occur in the same month. The verification shall be made by a responsible person such as the Director of Finance or Staff Accountant.

B. Compliance Findings

There were no compliance findings relating to the financial statement audit required to be reported.

Section III - Federal Award Findings and Questioned Costs

A. Significant Deficiencies in Internal Control

None noted

B. Compliance Findings

There were no findings relating to the major federal awards as required to be reported in accordance with Section .510(a) of OMB Circular A-133.

BOROUGH OF CHAMBERSBURG
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
December 31, 2011

2010-01 Proper recording of grant revenue and receivables

Condition: During 2010, there was a restatement necessary for a grant receivable that should have been recorded in the previous period.

Status: There were no findings related to this matter identified in the current year.

2010-02 Review of fixed asset lives

Condition: During 2010, there was an asset placed in service with a life of 5 years that should have been 50 years. It was determined that there was not an overall review of the fixed asset lives before they were placed into service.

Status: There were no findings related to this matter identified in the current year.